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INTELLECTUAL PROPERTY RIGHTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

S. 1860 and S. 1869

MAY 14, 1986

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INTELLECTUAL PROPERTY RIGHTS

WEDNESDAY, MAY 14, 1986

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The committee met, pursuant to notice, at 1:30 p.m., in room SD-215, Dirksen Senate Office Building, Hon. John C. Danforth (chairman) presiding.

Present: Senators Roth, Danforth, and Baucus.

[The press release announcing the hearing and the prepared statement of Senators Roth and Bentsen follow:]

[Press Release, May 1, 1986]

COMMITTEE ON FINANCE SETS HEARINGS ON TRADE ISSUES RAISED BY S. 1860 AND S. 1869

Senator Bob Packwood (R-Oregon), Chairman of the Committee on Finance, announced today the scheduling of four hearings of the Subcommittee on International Trade on May 13, 14, and 15, 1986. Senator John C. Danforth (R-Missouri), Chairman of the Finance Committee's Subcommittee on International Trade will preside at these hearings. All the hearings will be held in Room SD-215 of the Dirksen Senate Office Building.

Senator Packwood noted that a number of important issues are raised by S. 1860, sponsored by Senators Danforth, Moynihan, Dole, Bradley and others. This series of hearings will afford an opportunity to examine the merits of S. 1860 and other bills which share its themes, Chairman Packwood stated.

On May 14, 1986 at 1:30 p.m., the Subcommittee will consider trade related issues in intellectual property protection. The hearing will focus primarily on S. 1869, principally sponsored by Senators Lautenberg and Roth, along with other intellectual property matters contained in S. 1860 and the Administration's proposed package of intellectual property law reforms.

OPENING STATEMENT OF SENATOR WILLIAM V. ROTH, JR.—HEARING ON S. 1869, INTELLECTUAL PROPERTY RIGHTS

Let me begin by thanking Senators Danforth and Packwood for their support on this issue and, paticularly for scheduling this hearing at the outset of the committee's work on an Omnibus Trade Bill.

I also want to commend Senator Lautenberg, who has been a real pioneer on this issue, particularly in regard to section 337 of the trade laws. We have been working closely together to move this legislation.

It has been gratifying to see the momentum building for action by the Senate to provide quick, effective and meaningful protection of U.S. intellectual property rights since Senator Lautenberg and I introduced our legislation of section 337 last September. In fact, it seems that support for this section 337 legislation has brought together a coalition that is rare on trade issues in Washington today. As will become increasingly clear in the course of this hearing, amendments to section 337 are supported by the Congress, the administration, the business community, and the labor unions.

Let me comment a minute about the substance of today's hearing.

First about the proposals on section 337.

Some trade issues are really difficult because they involve areas over which we in the U.S. Congress do not have control—for example, the trade policies of other countries or their monetary or fiscal policies.

Protection of U.S. intellectual property rights in our own market, however, is a relatively simple matter. If our laws do not provide for adequate protection, we can change them. We are the ones who determine—who have responsibility for—the protection of America's inventiveness.

And our international trade agreements recognize this. The General Agreement on Tariffs and Trade specifically provides an exception for national action to protect patents, trade marks and copyrights and the prevention of deceptive practices.

Right now our own trade laws put too many obstacles in the path of those who seek to uphold their intellectual property rights. This means job losses for Americans and it means the loss of the critical requirement for America's economic future—our creativity.

In 1982, the International Trade Commission estimated that infringement of U.S. intellectual property rights cost the Nation's businesses $5.5 billion in annual sales and cost Americans 131,000 jobs in five countries. In a sector near and dear to my heart—chemicals—a recent study by the National Agricultural Association estimates that the potential adverse impact of property rights infringment on the U.S. agrichemicals business is about $150-$300 million a year. This is a staggering figure when you consider that U.S. exports of agriculture total about $1.5 billion annually and that research and development costs $625 annually.

More and more, we learn that foreign firms are pirating American inventories and then exporting their products back to the United States to compete with legitimate U.S. production.

We must not allow this situation to continue. Our international competitiveness is increasingly dependent on U.S. ingenuity and technological innovation.

As I see it, the priority for us in the committee in this effort to amend section 337 is the injury issue. Right now the law requires that infringing imports threaten an efficient and economically operated domestic industry with "destruction or substantial injury." But why should an owner of an intellectual property right like a patent have to demonstrate "destruction or substantial injury if the patent is infringed?" This seems to defeat the purpose of obtaining intellectual property protection in the first place.

Our legislation would remove this obstacle to securing relief from the ITC. If an import infringes a valid patent, copyright, trade secret, maskwork (semiconductor chip design), or if an import is made without the authority of a trademark owner, then injury would be deemed to exist, and proof of injury would no longer be required.

Finally, I want to make clear that I strongly support the other intellectual property rights provisions in S. 1860. I have been a cosponsor of Senator Mathias bills on the protection of process patent rights and on the restoration of patent term for certain agricultural and chemical products. These bills are important in their own right and they complement the effort of Senator Lautenberg and myself on seciton 337.

I am pleased that the administration has identified intellectual property rights as a priority trade issue.

Today, I have introduced as a bill their proposed language on amendments to section 337. The administration draft has a number of the same objectives as S. 1869 and should, I believe, be clearly on the table in this public debate on section 337.

Again, Senator Danforth my thanks for your support and leadership on this issue.

STATEMENT OF THE HONORABLE LLOYD M. BENTSEN AT A HEARING ON INTELLECTUAL PROPERTY PROTECTION IN INTERNATIONAL TRADE

MAY 14, 1986

MR. CHAIRMAN, A VIGOROUS PROGRAM OF PROTECTING OUR INTELLECTUAL PROPERTY HERE AT HOME AND ASSURING THAT OUR INTELLECTUAL PROPERTY RIGHTS ARE RECOGNIZED ABROAD IS AN IMPORTANT COMPONENT OF AMERICAN TRADE POLICY. THE BILLIONS OF DOLLARS SPENT ON RESEARCH AND DEVELOPMENT IN THIS COUNTRY DRIVES OUR EXPORT COMPETITIVENESS. IF WE CANNOT PROTECT IT FROM PIRACY, OUR ABILITY TO COMPETE INTERNATIONALLY IS SERIOUSLY IMPAIRED. SO PROTECTION OF INTELLECTUAL PROPERTY SHOULD BE A PRINCIPAL OBJECTIVE OF THE UNITED STATES IN THE NEW ROUND.

PENDING THE OUTCOME OF NEW ROUND NEGOTIATIONS, HOWEVER, WE MUST ACTIVELY PURSUE ALL OUR REMEDIES TO PROTECT THESE RIGHTS AND TO OPEN MARKETS TO OUR PRODUCTS THAT BENEFIT FROM OUR INVENTIVENESS AND TO INVESTMENT THAT USES OUR RESEARCH AND DEVELOPMENT. TWO PIECES OF LEGISLATION RECENTLY INTRODUCED ADDRESS THIS PROBLEM.

FIRST, I HAVE BEEN PLEASED TO COSPONSOR S. 2435, INTRODUCED ON MONDAY, MAY 12, 1986, BY SENATORS WILSON, LAUTENBERG, AND OTHERS TO IMPROVE REMEDIES FOR U.S. COMPANIES THAT ARE TRYING TO PROTECT THEIR INTELLECTUAL PROPERTY ABROAD AND EXPORT TO FOREIGN MARKETS. THIS BILL ALSO INCLUDES IMPORTANT MODIFICATIONS TO SECTION 337 OF THE TARIFF ACT OF 1930, WHICH IS OUR MAIN LINE OF DEFENSE OF AGAINST MPORTED PRODUCTS THAT UNFAIRLY INFRINGE U.S. PATENTS.

IN ADDITION, SENATOR DANFORTH AND I AND SEVERAL OTHER MEMBERS OF THE COMMITTEE -- SENATORS LONG AND BAUCUS -- AND OTHERS HAVE INTRODUCED S. 2226, WHICH PROVIDES A REMEDY FOR UNFAIR TRADE CONCESSIONS REQUIREMENTS UNDER SECTION 301. UNFAIR TRADE CONCESSIONS ARE CONDITIONS PLACED UPON THE EXPORT OF AMERICAN GOODS TO OTHER COUNTRIES. IN THE TYPICAL CASE, A FOREIGN GOVERNMENT MAKES IT A CONDITION UPON IMPORTATION OF AN AMERICAN PRODUCT THAT THE AMERICAN COMPANY LICENSE ITS TECHNOLOGY OR BUILD A PLANT ABROAD. THESE CONDITIONS ROB AMERICAN WORKERS OF JOBS UNFAIRLY, VIOLATE THE GENERAL AGREEMENT ON TARIFFS AND TRADE BY PLACING ADDITIONAL CONDITIONS ON IMPORTATION IN VIOLATION OF ARTICLE I, AND, NOT LEAST IMPORTANT, ROB OUR COMPANIES OF THEIR RIGHTS TO INTELLECTUAL PROPERTY AND TO REASONABLY ROYALTIES FOR THE USE OF THE PROPERTY.

MR. CHAIRMAN, I HOPE THIS HEARING WILL PRODUCE CONSENSUS AMONG OUR WITNESSES THAT THE PROTECTION OF INTELLECTUAL PROPERTY IS AN IMPORTANT OBJECTIVE FOR THE UNITED STATES, BOTH IN THE LONG RUN, THROUGH NEGOTIATIONS, IN THE NEW ROUND, AND IN THE SHORT RUN, THROUGH EXERCISING OUR RIGHTS UNDER INTERNATIONAL AGREEMENTS AND OUR DOMESTIC LAW.

BOB PACKWOOD, OREGON, CHAIRMAN

BOB DOLE, KANSAS
WILLIAM V. ROTH, JR., DELAWARE
JOHN C. DANFORTH, MISSOURI
JOHN H. CHAFEE, RHODE ISLAND
JOHN HEINZ, PENNSYLVANIA
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WILLIAM J. WILKINS, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510

MAY 12, 1986

MEMO

FROM: FINANCE COMMITTEE TRADE STAFF
(JOSHUA BOLTEN 4-5472)

TO: FINANCE COMMITTEE MEMBERS

SUBJECT: MAY 14, 1986, TRADE SUBCOMMITTEE HEARING ON INTELLECTUAL PROPERTY PROTECTION

On Wednesday, May 14 at 1:30 p.m. in Room SD-215, the Subcommittee on International Trade will hold a hearing on trade issues in the protection of intellectual property rights. The hearing will focus on S. 1869, sponsored principally by Senators Lautenberg and Roth, as well as on other intellectual property issues raised in Title VIII of S. 1860 and in the Administration's proposed package of intellectual property law reforms. Senator Danforth will preside.

S. 1869, which is included in whole in Title VIII of S. 1860, would amend Section 337 of the Tariff Act of 1930. S. 1860 also includes provisions relating to process patents and agrichemical patents. Last week, the Administration sent up a proposal covering all three of these subjects, plus three additional titles related to patent, licensing, and antitrust law. (Referral of the full Administration package will probably be to the Judiciary Committee.)

A. Background

Intellectual property is generally defined to include patents, copyrights, trademarks, and trade secrets--and more recently, mask works (used in producing semiconductor chips). Intellectual property rights are those without which others could freely use or copy an idea, an expression, a design, or a product or its mark or packaging. The protection of these rights has become an increasingly important U.S. trade problem--in both foreign and domestic markets.

Some typical examples of intellectual property protection problems encountered by U.S. businesses involved in international trade include the following:

- A counterfeit Apple computer (i.e., one bearing the Apple trademark or using copyrighted Apple software without Apple's consent) is made in Korea and imported into the United States. Apple has trouble protecting its rights, particularly because it can't get the Korean counterfeiter into U.S. courts.

- A counterfeit Apple computer is made and sold in Korea. Apple has trouble protecting its rights, particularly because Korean intellectual property laws are weak and widely unenforced.

- A Japanese company exports to the United States optical fibers made through a process patented in the United States by Corning.

- In the name of "cultural sovereignty," a country limits imports of U.S.-made films or controls their distribution.

Even putting aside market access difficulties, the loss of U.S. jobs and sales caused for foreign intellectual property infringement is enormous. Estimates vary widely, but some put the cost to U.S. business as high as $20 billion per year.

Section 337 is the principal statutory weapon against imports that violate U.S. intellectual property rights. It is commonly used by U.S. patent, copyright, and trademark holders to keep out imports that infringe their rights.

B. Section 337

Section 337 makes unlawful:

1. unfair acts in the importation of merchandise into the United States;
2. the effect of which is to substantially injure (or prevent establishment of)
3. an industry in the United States,
4. which is efficiently and economically operated.

If the International Trade Commission (ITC) finds these elements to exist, then it must either:

1. order exclusion of the imports from the U.S. market; or
2. issue cease and desist orders against the unfair respondents,

unless:

3. it finds that the public welfare or competitive conditions dictate that no action be taken.

The President may, within 60 days, nullify any ITC action under Section 337, but has very rarely done so.

Intellectual property rights are also enforceable in federal and state courts under common law and statutory provisions other than Section 337. Unlike 337, a court proceeding allows an intellectual property right holder to obtain damages against an infringer. Nevertheless, an action before the ITC under Section 337 holds significant advantages in some circumstances:

- Because the action is against the imported goods themselves, the difficulty of getting a foreign defendent before a U.S. court is obviated.
- For the same reason, a 337 exclusion order works against future, unknown exporters.
- 337 cases are typically much faster than court actions.

C. Proposed Amendments to 337

Notwithstanding these advantages of a 337 action, U.S. intellectual property owners have argued that the elements of proving a 337 case pose too great a hurdle to obtaining relief against infringing imports, particularly since 337 is often the only feasible avenue of relief. S. 1869 would make it significantly easier to get relief, by eliminating most of the elements of proof in an intellectual property case other than the infringement itself. It would also strengthen the remedies available under Section 337. The most important changes are as follows:

1. Injury.

S. 1869 would eliminate the requirement that the petitioner prove injury. If the petitioner can demonstrate that an import infringes valid intellectual property rights, then injury will be deemed to exist. The Administration package and the omnibus trade bill reported last week by Ways and Means take the same approach. The idea is that the infringement of an intellectual property right should itself constitute sufficient injury to justify relief.

Some argue that the injury requirement should be retained; or that proof of infringement should merely create a rebuttable presumption of injury. Their reasoning is that, unless there is some indication that an import causes actual injury to a U.S. industry, there is no reason to deny that product to U.S. consumers. Proponents of the S. 1869 approach respond that infringement is injury; further proof of injury is typically time-consuming and expensive, with unpredictable results.

2. Industry.

Current law requires that the petitioner establish the existence of a U.S. industry producing in the U.S. the same article as the allegedly infringing import. Opponents of this requirement argue that it unfairly and unnecessarily precludes from 337 relief intellectual property owners who have not put their rights into production in the United States--such as U.S. licensors of patents to foreign producers, or those who have invested only in research and development or marketing in the United States. Those favoring retention of the industry requirement argue that its elimination would in some cases leave the ITC merely protecting one foreign producer from another, with no appreciable benefit for U.S. jobs or production capability.

The various 337 reform proposals address this tension in a range of ways:

a. S. 1869 would remove the need to establish the existence of an industry larger than the intellectual property owner itself. The petitioner would still have to establish that it is "in the United States"; but the bill is unclear on how much presence in the United States is required.

b. The Administration proposes to eliminate an industry requirement entirely, making it possible for intellectual property owners with no presence in the United States to enforce their rights before the ITC. They argue that completely eliminating the industry requirement would make the provision non-discriminatory and encourage other countries to open their procedures to U.S. intellectual property holders.

c. The Ways and Means bill strikes something of a middle ground between elimination and retention of a full industry requirement. It would retain an industry requirement but make it easier to meet, by deeming any of the following to be sufficient to establish the existence of an industry:

(i) significant investment in plant and equipment;

(ii) significant employment of labor or capital; or

(iii) substantial investment in exploitation of the intellectual property right, including research and development and licensing.

d. Others argue that the industry standard should be left as is. Still others suggest that the requirement should be eliminated with respect to foreign petitioners only when their countries provide reciprocal privileges to U.S. intellectual property holders.

3. Efficently and economically operated.

S. 1869 also eliminates the requirement that the domestic industry be "efficiently and economically operated." Proponents argue that the existing requirement precludes small, start-up companies and industries from pursuing relief. Also, the requirement has never been used to bar relief and is subject to discovery abuses (companies fishing for information about their competitors). Opponents of S. 1869 argue that imposing trade restrictions in a situation where the domestic industry is inefficient and will not be economically viable is a waste of resources and not in the public interest. Others argue that the requirement is more appropriately retained as part of the ITC's "public interest" determination.

With respect to the elimination of all three of these requirements--(1) injury to a (2) domestic industry that is (3) efficiently and economically operated--opponents argue that it would shift 337 and the ITC away from their intended focus on trade and protection of U.S. productive capacity and jobs. The ITC would merely be an expedient alternative forum to the courts for enforcement of intellectual property rights. Proponents respond that 337 would remain a trade statute. The type of relief would still be against imports, and the ITC would still be required to consider the public interest before imposing relief.

4. Remedies

S. 1869 would enhance the remedies available to the ITC in several ways. It would empower the ITC to issue both cease and desist orders and exclusion orders, rather than merely one or the other. The fine for violating an order would be increased. Most important, S. 1869 would give the ITC authority to order the forfeiture of infringing goods, in addition to exclusion of them. This last provision is designed to prevent the apparently common practice of importers taking goods excluded at one Customs port to other ports until a local official errs (i.e., does not recognize the goods as subject to an exclusion order) and allows the goods in.

5. Gray market imports.

So-called "gray market" goods are those manufactured by or with the authority of the trademark holder--but typically imported into the United States in violation of trademark agreements. (For example: Hong Kong Watches exports a genuine Seiko watch to the United States, despite being authorized by the manufacturer to distribute only in Hong Kong and despite Seiko USA's contractual right as exclusive distributor in the United States.) The courts are split on whether such gray market importations constitute an unfair act.

The various 337 proposals expressly seek not to address this controversial issue, although they do so in different ways:

a. S. 1869 would not remove the injury requirement from cases against gray market imports, thus leaving those cases unchanged from current law.

b. The Administration's proposal would treat gray market cases like others, but only to the extent that grey market importation is otherwise found to be a trademark infringement.

D. Process and Agrichemical Patents

S. 1860 also contains two intellectual property sections corresponding to bills introduced last year by Senator Mathias. Section 802 (S. 1543) relates to process patents; Section 803 (S. 1093) relates to agrichemcial patents. Both bills, as modified, have been favorably reported out of Senator Mathias' Judiciary subcommittee and are awaiting full committee markup. The Administration's proposal contains titles corresponding to both provisions; the Ways and Means omnibus trade bill does not.

1. Process patents.

Under U.S. patent law, an inventor can obtain time-limited exclusive rights to not only a product, but also a process by which a product is made--usually a complex chemical or industrial process. Many products that are not in themselves patentable (like vitamin C) can be made by processes that are.

Under current law, the process patent holder can sue in court for damages from an infringer who uses the process in the United States, but not someone who uses the process abroad and then ships the resulting product to the United States. The process patent holder may be able to obtain an exclusion order from the ITC under Section 337. But because of the hurdles in obtaining 337 relief and because damages are not available, 337 alone has been regarded as insufficient protection for process patent holders. Therefore, the bill provides a damage remedy in court against the importation, sale or use in the United States of a product made by a U.S. patented process.

2. Agricultural patents.

After a patent is granted, a substantial portion of the patent term can pass before the patent holder is able to market the product, on account of federal review and testing requirements. In the last Congress, legislation was enacted to allow pharmaceutical manufacturers to obtain an extension of the patent term for time lost awaiting federal approval of a medicine. This bill would provide similar treatment for agricultural chemicals.

E. Other Intellectual Property Matters

A number of important trade-related intellectual property matters, although not included in Title VIII of S. 1860 or in the Administration's package, may be raised at the hearing or in the context of different portions of S. 1860 and other specific legislation. They are noted here briefly:

1. Multilateral Trade Negotiations.

During the Tokyo Round of Multilateral Trade Negotiations in the late 1970's, the United States sought agreement on an international anticounterfeiting code, designed to protect against trademark and trade-name piracy by requiring the forfeiture of counterfeit merchandise. The Administration hopes to conclude such an agreement early in the new round of GATT negotiations, set to begin in September.

More broadly, the Administration has indicated it will seek a general agreement on intellectual property within the GATT--notwithstanding the objection of some nations that such matters are more properly handled through existing conventions and organizations (like the World Intellectual Property Organization). Title IV of S. 1860, providing negotiating authority for trade agreements, lists as a principal negotiating objective the extension of GATT articles and codes of conduct to intellectual property rights.

2. Foreign market access and protection.

Section 301 of the 1974 Trade Act gives the President authority to respond to foreign unfair trade barriers, including barriers in the intellectual property area. Last fall, the Administration initiated a 301 investigation of inadequate intellectual property protection laws in Korea. Title II of S. 1860 would amend Section 301, principally to set stricter time deadlines and to mandate retaliation against unfair foreign trade practices in some circumstances.

In addition to a variety of proposals to amend Section 301 generally, there are also proposals for provisions directed expressly at the intellectual property sector. One such proposal would require the U.S. Trade Representative to designate specific countries that maintain significant barriers to U.S. intellectual property exports or that do not provide adequate protection to U.S. intellectual property. The proposal would require some form of retaliation against such countries, if they do not reach agreement with the United States within two years. This approach (with respect to market access) was adopted in the Ways and Means omnibus trade bill.

3. GSP and CBI.

Both the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) include intellectual property considerations in determining the eligibility of countries for those programs' tariff preferences. A variety of proposals have been suggested to strengthen the link between intellectual property protection/market access and continued receipt of GSP and CBI benefits.

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Senator DANFORTH. This hearing is a continuation of our series on S. 1860. This hearing pertains to the intellectual property rights question. And, first, we have Senator Wilson and Congressman Lundine.

Senator Wilson, thank you.

STATEMENT OF HON. PETE WILSON, U.S. SENATE, STATE OF CALIFORNIA

Senator WILSON. Mr. Chairman, thank you. I particularly wish to express my gratitude to you and to the subcommittee for holding a separate hearing on the matter of intellectual property. I think that it is entirely appropriate, for the industries that depend on intellectual property protection are among the most productive, the most technologically advanced, and the most competitive internationally.

As we undertake the efforts to remove foreign barriers to our exports, I think that we are compelled to press ahead very forcefully both during bilateral and multilateral negotiations, and during consideration of remedial legislative efforts. We can't continue to treat our trading partners like you would your bridge partner, sitting idly by as the dummy while your partner is allowed free access to pick and choose at will from among your best cards.

Mr. Chairman, we control the largest developed market in the world, and continued access to it is our trump card. We should not be in the least hesitant about letting everyone know that we are willing to play it.

Unfortunately for the most part, we have allowed some of our strongest industries, some of those that have the greatest export market potential, to be picked at almost the unbridled fancy of international pirates. Now that word may seem harsh, but I think it is accurate. We have allowed people to engage in criminal conduct around the world at a cost to American companies of, we estimate, $20 billion annually.

They make bootleg patented pharmaceuticals and chemicals. And, they crank out copy after unauthorized copy of records, tapes, movies, books, toys, computer programs and a host of other copyrighted, patented and trademark goods.

I am not going to take the committee's time to set out in great detail the numerous specific problems that are faced by companies that depend upon intellectual property protection. I will leave that to the private industry representatives who will follow.

But let me at least briefly highlight a few abusive practices in the area, three that are being perpetrated by countries in our own hemisphere.

At a recent hearing of the Joint Economic Committee on Trade Productivity and Growth, which I chaired in Los Angeles, I learned that no one is safe from international pirates, not even Donald Duck. Apparently, or so it was alleged quite clearly in the testimony that we received, judges in Indonesia were bribed and subsequently held that Donald Duck belonged to an Indonesian company. I guess that is the sincerest form of flattery.

In Panana, the government continues to allow a company known as REXSA, owned by two former presidents of Panama and a former foreign minister, to retransmit on its cable system intercepted or, more accurately, pirated signals that are received from satellites. United States television shows are seen for free in Panama and elsewhere throughout this hemisphere.

In Brazil, which sends us more than $1 billion in goods under the General System of Preferences Program, the government's film board has erected barriers to both foreign film exhibition and, in a fast growing market, distribution of video tapes.

Even our friends to the north in Canada allow retransmission of United States television signals without compensation to United States copyright holders.

I find it more than ironic, Mr. Chairman, that while Canada invokes the absurd notion of cultural sovereign—that is what they call it—to force divestiture of United States printing interests and to prevent other United States businesses from operating within Canadian borders, it condones the theft of our television shows for the benefit of Canadian audiences.

The bottom line seems to be that the Canadians don't mind an invasion of United States culture as long as it arrives free of charge.

With all this as prolog, on Monday I introduced, along with our colleague, Senator Lautenberg, a comprehensive intellectual property trade bill, S. 2435. The bill entitled "The International Intellectual Property Protection and Market Access Act of 1986" would address the broad array of problems faced by companies that depend on intellectual property protection, from semiconductors manufacturers to book publishers, from chemical producers to filmmakers, and from pharmaceutical companies to recording artists.

The details of the bill are contained in my prepared statement submitted to the committee. Let me just briefly state the reasons why I have introduced it.

Why do we need a new law devoted to intellectual property? Aren't there enough powers already granted to the President under section 301 of the Trade Act? I think it is more a matter of process, Mr. Chairman.

Despite the great contribution increased exports of copyrighted, patented, and trademark goods could make to our trade expansion efforts, the very nature of intellectual property piracy and protectionism is that it is veiled and it is insidious. Our trade laws presently are designed to deal with unfair and predatory foreign actions, affirmative actions. The problems that we face with intellectual property protection is that it often arises from a failure of a foreign government to take action. And it is their inaction that allows piracy to flourish.

And as for market access, for most products foreign protectionism is designed to protect domestic industries. With intellectual property, restrictions on our products often are based on notions of nationalism.

Considering the problems inherent in dismantling trade impediments affecting intellectual property and the great potential for increased exports from a strictly cost-benefit analysis, patents, copyrights, trademarks, and other works, I believe, are deserving of far greater attention than we have given them.

Now the major thrust of the bill comes from its first two titles. Title I addresses the problems of intellectual property protection. Title II is designed to pry open foreign markets that are presently closed to U.S. copyrighted and patented goods.

Each establishes a similar mechanism designed first to identify priority problems—that is to say, nations where there is piracy going on to a very considerable extent and nations where there are, as a result, very considerable theft of large potential markets.

Negotiations are then held by the U.S. Trade Representative for a period of 2 years with these priority offending nations seeking to end the kind of piracy that we are facing. Finally, if after 2 years progress has not been achieved, the President is required to take retaliation.

In title II, there is a similar process with respect to market access. The process is the same. First, the identification of the priority nation. Second, the requirement for negotiation. And, third, if that fails, the requirement for retaliation.

Titles III and IV augment existing provisions aimed at intellectual property protection and market access that are contained respectively in the Generalized System of Preferences and Caribbean Basin Initiative laws making it more likely the offending countries will lose the benefits they receive under those pieces of legislation.

Title V, Mr. Chairman, seeks to indicate the importance of an increase in activity and attention by establishing a new Office of Enforcement within the Office of the U.S. Trade Representative. This office is charged with coordination of our negotiation and retaliation initiatives taken pursuant to section 301 of the Trade Act of 1974 and the other provisions of this bill.

And, finally, in the spirit of Victor Kiam—the man who liked the shaver so much he bought the company—not only have I cosponsored S. 1869 with my colleagues, Senator Lautenberg and Senator Roth, but the last title of my bill incorporates S. 1869. It makes needed changes to section 337 of the Tariff Act of 1930 to stop the importation of patent-infringing goods.

Mr. Chairman, again I thank you and the members of the subcommittee for holding this separate hearing on a problem that is deserving of all the attention that you are giving it. You will hear horror stories this afternoon from the private industry representatives who follow. You will hear how it is that German audiences of Turkish workers have been permitted to see "Rambo II" and "Rocky IV" before American home video audiences have had that kind of access.

We are facing a problem that is already epidemic, and we are, I think, really just scratching the surface. The potential, if we do not compel our trading partners to enact and enforce the kind of copyright protections that civilized nations have observed for many years, is going to result ultimately in the most obvious kind of disincentive to those who are presently required and who do make substantial investments in research and development of chemical and pharmaceutical formulas, in the development of software programs, and the development of intellectual property rights of a literary and artistic nature.

All of these things require substantial investment, some of them substantial investment in research and development.

If those who make that expenditure of time, effort, and money are to be unprotected, clearly we will cease to see the kind of effort that is now being made. In many instances, innovations that can easily be copied have been resisted, not because they are not cost effective or would not produce a better product, but because it is simply not worth the effort and the cost if the result is going to be the immediate piracy of the improvement.

Thank you very much, Mr. Chairman.

Senator **Danforth**. Senator Wilson, thank you very much.

We had a few years ago in the large hearing room downstairs on the first floor of the Dirksen Building what amounted to a bizarre of pirated goods with the bona fide good and the pirated good side by side. And it is truly remarkable. I mean it is not only books and tapes and movies and whatnot and Levis and Rolex watches and the things that people have heard about, but it is components for automobiles and components for airplanes that are sloppily made, to say the least. And it poses a real danger.

Your view is that the present state of the law is inadequate to deal with this significant problem.

Senator **Wilson**. Yes, sir, it is. I think that while there are remedies available under other pieces of legislation, I really do not think that there is a cohesive process. I don't think that we have focused adequately on the problem. I think that the first two titles of this legislation really are aimed at providing the process and making clear to our trading partners that they can expect retaliation if they continue to engage in piracy. The U.S. Trade Representative, if he identifies piracy and identifies significant markets where it is being practiced, is required to engage in negotiations. If the negotiations are unsuccessful, he is then required to retaliate. I think nothing less than that certainty is going to change anything.

Senator **Danforth**. Senator Roth.

Senator **Roth**. Well, I join you, Mr. Chairman, in congratulating Senator Wilson for his leadership in this area. I have no particular questions at this stage, but if I may, with your permission, just make a couple of comments.

First of all, I want to express my personal appreciation to you for holding these hearings this afternoon on a matter that I think is not only of critical importance but in many ways it is hard to imagine any area of more importance. If there is one area that this country I think still has some leadership, some advantage, it is in the area of ideas, inventiveness, innovation. And I think that if we are going to continue to maintain this kind of leadership, it is important that our laws protect us from those who would seek to use piracy as a means of stealing valuable concepts, valuable ideas, valuable inventions.

I would, Mr. Chairman, just point out that this is one area where if our laws do not provide for adequate protection, we can change them. We are the ones who determine and have responsibility for the protection of America's inventiveness. And our international trade agreements recognize this. The General Agreement on Tariffs and Trade specifically provides an exception for national action to provide for the enforcement of patents, trademarks, copyrights, and the prevention of deceptive practices.

Very frankly, as you well know, I think our own trade laws put too many obstacles in the path of those who would seek to uphold their intellectual property rights. This means job losses for Americans, and it means the loss of American's economic future, our creativity.

I have a further statement, but I would ask that we include it as part of the record. Again, I would just like to say we look forward to working with you, Senator Wilson, and others who are so much concerned about this matter.

Senator WILSON. Well, thank you very much, Senator Roth. Addressing these comments to you and the Chairman is a little like preaching to the choir, I think. You have long demonstrated leadership.

I didn't, Mr. Chairman, bring any number of counterfeit tapes or video cassettes. Your own statement, I think, made that unnecessary.

But you are quite correct. It is not simply a question of the illegality and the unfairness, the lack of equity involved. In many cases beyond the piracy itself, the reliance upon these counterfeited goods produces tragic results. When you are talking about airplane parts which are not capable of handling stress, you have a safety factor involved that literally makes these piracies a matter of life and death.

Senator DANFORTH. Senator Wilson, thank you very much.

Senator WILSON. Thank you, sir.

Senator DANFORTH. We appreciate your leadership.

[The prepared written statements of Senators Wilson and Lautenberg follow:]

STATEMENT OF THE HONORABLE PETE WILSON
SENATOR FROM CALIFORNIA
BEFORE THE COMMITTEE ON FINANCE -- UNITED STATES SENATE
SUBCOMMITTEE ON INTERNATIONAL TRADE
MAY 14, 1986

INTELLECTUAL PROPERTY TRADE LEGISLATION

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today at one of your series of hearings on pending trade legislation. I am particularly pleased that a separate hearing was scheduled to consider trade issues relating to intellectual property, for it is the industries that depend on intellectual property protection that are among our most productive, our most technologically advanced, and our most competitive internationally.

I commend the Committee's willingness to devote its energies towards expanding opportunities for our competitive industries. Trade expansion must be our goal, for it offers the best hope for domestic and international economic prosperity.

As we undertake efforts to remove foreign barriers to our exports, we must press our case forcefully, both during bilateral and multilateral negotiations and during consideration of remedial legislative efforts. We cannot continue to treat our trading partners as you would your bridge partner -- sitting idly by as dummy while your partner is allowed free access to pick and chose at will from among your best cards.

We control the largest developed market in the world, and continued access to it is our trump card. We should let everyone know that we are willing to use it.

Unfortunately, for the most part we have allowed some of our strongest industries, those that have great export market potential, to be picked at almost at the unbridled fancy of international pirates. We have allowed criminals around the world to cost American companies billions of dollars by bootlegging patented pharmaceuticals and chemicals, and by cranking out copy after unauthorized copy of U.S. records, tapes, movies, books, toys, computer programs, and a host of other copyrighted and trademarked goods.

Private and U.S. governmental studies have estimated that the cost of this piracy to U.S. industries in 1986 will exceed $3 billion, and perhaps be as high as $20 billion. That is somewhere between 2% and 13% of last years trade deficit.

And what makes this illegal activity all the more outrageous is that it is often protected by governments we consider friendly to the U.S.. Indeed, in many cases we have provided special trade benefits in order to help them develop their economies.

Two of the largest GSP beneficiaries are Taiwan and Korea. They also are two of the greatest centers of international piracy of intellectual property. Since we reauthorized GSP in 1984 -- including sanctions against countries that do not respect intellectual property rights -- preliminary reports suggest that Taiwan is starting to take action against the pirates in their midst. Unfortunately, Korea has not done so well.

As a result, eleven Senate colleagues joined me in calling on U.S. Trade Representative Clayton Yeutter to refuse to grant any competitive needs waivers under GSP to Korea unless it makes significant progress by the end of this year. Korea also has pending against it an Administration-initiated action, brought under section 301 of the Trade Act of 1974, for its lack of intellectual property protection. Frankly, if Korea does not make some radical changes rather quickly, it should lose its GSP designation, either by Administration action under the GSP law -- or, if necessary, by the Congress.

Unfortunately, these two countries represent only the proverbial tip of the iceberg. GSP beneficiaries Singapore, Indonesia, Brazil, and others have booming piracy businesses, often with the involvement of present and former government officials that makes Tamany Hall look like a class picnic.

For example, in Brazil, which sends us more than $1 billion in goods under the GSP program, the government film board has erected barriers to both foreign film exhibition and, in a fast-growing market, distribution of video tapes. The result of these actions is that Brazil will only let our film companies to do business there if it is done on a non-profit basis -- at a time when illegal video piracy is raking in millions.

As I learned at a recent hearing of the Joint Economic Committee Subcommittee on Trade, Productivity, and Growth which I chaired in Los Angeles, no one is safe from international pirates -- not even Donald Duck. Apparently, judges in Indonesia were bribed, and they subsequently held that the Donald Duck logo belonged to an Indonesian company. In Panama, the government continues to allow a company, known as REXSA and owned by two former presidents and a former foreign minister, to retransmit on its cable system intercepted U.S. television shows. And even our friends to the north allow retransmission of U.S. TV signals without compensation to U.S. copyright holders.

I find it more than ironic that while Canada invokes the absurd notion of "cultural sovereignty" to force divestiture of U.S. printing interests and to prevent other U.S. businesses from operating within its borders, it condones the theft of our television shows for the benefit of Canadian audiences. The bottom line seems to be that the Canadians don't mind an "invasion" of U.S. culture as long as it arrives free of charge.

While the theft of broadcast signals by the Canadians is evidence of its disdain for the rights of copyright holders, its investment policies are an impediment to the marketing efforts of our industries that depend on intellectual property protection. And in this arena of unfair trading practices, Canada is not alone.

Not all forms of intellectual property are excluded by countries simply because they constitute intellectual property. For example, trademarked personal computers are not excluded from Korea because they are trademarked, but because Korea excludes all personal computers. However, Korea and other countries around the world do place unreasonable non-tariff barriers around their markets designed to exclude such items as movies, books, records, patent drugs, electronics, and chemicals. The barriers come in various forms, from mandatory licensing agreements, royalty ceilings, joint production requirements, to straight quotas.

With all of this as prologue, on Monday I introduced, along with Senator Lautenberg, a comprehensive intellectual property trade bill, S. 2435. The bill, entitled the "International Intellectual Property Protection and Market Access Act of 1986" would address the broad array of problems faced by companies that depend on intellectual property protection: From semiconductor manufacturers to book publishers, from chemical producers to filmmakers, and from pharmaceutical companies to recording artists.

At this point, I would like to briefly outline what my bill contains.

The major thrust of the bill comes from its first two titles. Title I addresses the problems of intellectual property protection while Title II is designed to pry open foreign markets that are presently closed to U.S. copyrighted and patented goods. Each establishes a similar mechanism designed first to identify priority problems. Negotiations with offending countries are then required. Finally, if after two years a settlement cannot be reached, the President is required to take retaliatory action.

Title III and Title IV augment existing provisions aimed at intellectual property protection and market access contained in the Generalized System of Preferences and Caribbean Basin Initiative laws. Presently, the President must consider piracy and market access when deciding whether or not to designate a country as eligible for benefits under these concessionary trade laws. There is no mandate for him to revoke benefits. Furthermore, under CBI, the law only allows the President to revoke all benefits from offending countries; He is not given the ability to dole out punishments that are proportionate to the offense, thereby making sanctions less likely. While some countries are deserving of total removal from CBI, this bill would allow for less than complete termination of benefits for others depending on the severity of their actions. And for both CBI and GSP, the bill requires a cut in benefits.

Title V establishes a new Office of Enforcement within the Office of the United States Trade Representative. This office is charged with coordinating our negotiating and retaliation initiatives taken pursuant to section 301 of the Trade Act of 1974 and the provisions of this bill.

Finally, in the spirit of Victor Kiam -- the man who liked the shaver so much he bought the company -- not only have I cosponsored S. 1869, which was introduced by Senator Lautenberg and Senator Roth, but the last title of my bill incorporates it, making needed changes to section 337 of the Tariff Act of 1930 to stop the importation of patent-infringing goods.

Mr. Chairman, I again would like to thank you for this opportunity to appear here today.

S. 2435
LEGISLATION INTRODUCED BY
SENATOR PETE WILSON
MAY 12, 1986

International Intellectual Property Protection And Market Access Act of 1986

Section By Section Summary

Section 1. Short Title

Section 2. Findings and Purpose

This section states Congressional findings that international protections of intellectual property rights, vital to U.S. competitiveness, are inadequate to protect U.S. economic interests; and that foreign trade and investment barriers seriously impede the ability of United States companies that rely on intellectual property protection to operate overseas resulting in a substantial loss of export markets.

The purpose of the legislation is to provide negotiating authority and to establish procedures to improve intellectual property protection abroad and to provide fair and equitable market access for U.S. companies relying on intellectual property protection.

Title I - Actions to Increase International Intellectual Property Protection

This Title is intended to improve international intellectual property protection. It establishes a process in which the U.S. Trade Representative investigates whether foreign countries provide adequate and effective protection of intellectual property rights; USTR then negotiates with designated "priority foreign countries" that deny such intellectual property protection to Americans; and it requires a response by the President against "priority foreign countries" that do not agree to provide such intellectual property protection within two years.

Section 101. Investigations and Findings

This section requires the United States Trade Representative ("USTR") to publish an annual list (based upon the annual report by USTR already required under the Trade Act of 1974) of those countries that deny adequate and effective intellectual property protection (*i.e.* patents, copyrights, trademarks and mask works) to U.S. companies. USTR is also directed to select "priority foreign countries" from this list based upon the potential export market in these countries and the onerous nature of their policies.

Section 102. Negotiations to Establish Adequate And Effective Protection Of Intellectual Property Rights

This section directs the President to enter into negotiations with the priority foreign countries to obtain greater intellectual property protection for U.S. companies. The President is granted additional authority to enter into similar agreements with other countries whenever he determines that their existing protections are inadequate and adversely affect U.S. competitiveness. The objectives of the negotiations are to improve intellectual property protection and to develop international rules for the protection of all forms of intellectual property. The President is granted the right to exclude a country or sector from negotiations after a public finding that such negotiations are unlikely to advance, or would be detrimental to, U.S. economic interests.

Section 103. Remedies

If the USTR is unable to reach agreement with a priority foreign country within two years, the President must take some action, which may include but is not limited to the following:

(1) terminate, withdraw, or suspend trade agreements previously entered into;
(2) increase or impose a duty on any article imported from the foreign country;
(3) proclaim a tariff-rate quota;
(4) modify or impose quotas;
(5) suspend benefits under the Generalized System of Preferences; or
(6) take any other action under Section 301(b) or (c) of the 1974 Trade Act.

Presidential action may be nondiscriminatory or solely against the offending country. The President is required to impose trade measures that have an economic impact substantially equivalent to the lost revenues of U.S. companies caused by lack of intellectual property protection. The President may defer action for six months after certifying to Congress that substantial progress is being made in the negotiations.

Section 104. Consultations

This section requires the President to consult with interested members of Congress, the appropriate Congressional committees and other interested parties.

Title II - Actions To Open Foreign Markets

This Title is intended to improve foreign market access for U.S. companies that rely upon intellectual property protection. The U.S. Trade Representative is directed to investigate foreign practices that deny fair and equitable market access to U.S. persons that rely upon intellectual property protection. USTR then negotiates with the "priority foreign countries" that deny such market access; and the President must respond.

Section 201. Investigations and Findings.

This section requires USTR to publish an annual list (based upon the annual report by USTR already required under the Trade Act of 1974) of those countries that deny fair and equitable market access (*e.g.*, through investment restrictions and trade barriers) to U.S. companies. USTR is also directed to select "priority foreign countries" from this list based upon the potential export market in these countries and the onerous nature of their policies.

Section 202. Negotiations To Open Foreign Markets

This section directs the President to enter into negotiations with the priority foreign countries in order to reach specific agreements which will provide fair and equitable market access for U.S. companies that rely upon intellectual property protection. The President is given authority to enter into trade agreements with foreign countries to eliminate such trade barriers. Upon consultation, the USTR may exclude a specific sector or country from the negotiations upon published findings that such remedies would be detrimental to the interests of U.S. persons that rely upon intellectual property protection.

Section 203. Remedies

If the USTR is unable to reach agreement with a priority foreign country within two years, the President must take some action, which may include but is not limited to the following:

(1) terminate, withdraw, or suspend prior trade agreements;

(2) increase or impose duties on any article imported from such foreign country;

(3) proclaim a tariff-rate quota on any article imported from such country;

(4) modify or impose quantitative restrictions;

(5) suspend benefits under the Generalized System of Preferences; or

(6) take other action pursuant to Section 301(b) or (c) of the 1974 Trade Act.

The President is granted authority to act on a nondiscriminatory basis or solely against the offending country. The President is required to impose trade measures that have an economic impact substantially equivalent to the lost revenues of U.S. companies caused by the lack of market access. The President may defer action for six months by certifying to Congress that negotiations are making substantial progress.

Section 204. Consultations

This section directs the President to consult with interested members of Congress, the appropriate Congressional committees and other interested parties.

Section 205.

This section defines "companies that rely upon intellectual property protection" as companies, or divisions or subsidiaries of companies, whose principal line of business involves creation, production or licensing of literary or artistic works which are copyrighted or which manufacture products that are patented or for which there are process patents.

Title III - Generalized System of Preferences

Section 301.

This Section amends the Generalized System of Preferences by adding a new subsection directing the President to terminate benefits previously extended to beneficiary developing countries if they are identified in the 1985 report under section 181 of the Trade Act of 1974 as providing inadequate intellectual property protection or inadequate market access unless the President certifies, at twelve month intervals, to Congress that such country has taken substantial action to rectify such inadequacies.

Section 302

This section further amends the Generalized System of Preferences by adding a new paragraph which prohibits the President from designating and requires removal from designation eligible articles which have been determined by any court or federal agency to infringe patent, copyright, trademark, mask work or trade secret interests.

Title IV - Caribbean Basin Economic Recovery Act

This Section amends the Caribbean Basin Initiative by creating a new section which grants USTR the right to exclude from eligibility those articles imported from beneficiary countries that provide inadequate intellectual property protection or inadequate market access to U.S. companies. USTR may defer action upon certification to the Congress that the offending country has taken substantial action to resolve such problems. This new section also provides that the value of the withdrawn benefits have an economic impact substantially equivalent to the lost revenues resulting from the denial of intellectual property protection and market access.

Title V - Improvement of Enforcement of United States Rights

Section 501. Establishment of Enforcement Office

This Section establishes an Office of Enforcement within the Office of the USTR to administer this Act and Section 301 of the Trade Act of 1974.

Section 502. Authorization For Enforcement Office

This Section authorizes appropriations for the Office of Enforcement.

Title VI - Unfair Practices in Import Trade

This Section inserts the text of S. 1869 which amends Section 337 of the 1930 Tariff Act.

STATEMENT BY SENATOR FRANK R. LAUTENBERG
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE
MAY 14, 1986

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO COME BEFORE YOU TODAY.

AMERICA'S ECONOMIC EDGE IS ITS TECHNOLOGY AND INNOVATION. BUT, IF WE'RE TO ENJOY THE FRUITS OF OUR LABOR -- THE JOBS AND GROWTH THAT COME FROM INNOVATION -- WE NEED TO STOP THE PIRACY OF AMERICAN INTELLECTUAL PROPERTY. I REFER TO U.S. PATENTS, COPYRIGHTS, TRADEMARKS, TRADE SECRETS AND SEMICONDUCTOR MASKS.

WITH DISTURBING FREQUENCY, FOREIGN FIRMS PIRATE AMERICAN INVENTIONS, AND THEN SHIP THOSE PRODUCTS BACK HERE. THE INTERNATIONAL TRADE COMMISSION ESTIMATED, BACK IN 1982, THAT INFRINGEMENT OF U.S. INTELLECTUAL PROPERTY COST AMERICANS 131,000 JOBS, IN JUST 5 SELECTED INDUSTRIAL SECTORS. PIRACY COST THE NATION'S BUSINESSES $5.5 BILLION IN ANNUAL SALES. ESTIMATES OF TOTAL LOSSES RANGE FROM $8 BILLION TO $20 BILLION.

SECTION 337 OF THE TARIFF ACT OF 1930 PROVIDES A REMEDY. IT EMPOWERS THE ITC TO EXCLUDE IMPORTS WHEN THE IMPORTER ENGAGES IN "UNFAIR ACTS." THE LAW IS USED TO KEEP OUT PIRATED PRODUCTS. BUT THE LAW FALLS SHORT. WE NEED TO STRENGTHEN IT, AND THAT'S WHAT WE WOULD DO IN S. 1869, WHICH SEN. ROTH AND I INTRODUCED ALONG WITH MANY OF OUR COLLEAGUES AND MEMBERS OF THIS SUBCOMMITTEE.

CURRENT LAW THROWS UP BARRIERS THAT HAVE BLOCKED RELIEF FOR A RANGE OF FIRMS:

- FROM THE NEW YORK INVENTOR OF FIBRE OPTIC WAVEGUIDE...
- TO THE CALIFORNIA MOVIE STUDIO THAT LICENSES THE GREMLIN CHARACTER.

THE MAIN PROBLEM IS THIS: IT ISN'T ENOUGH TO PROVE PIRACY. ONE HAS TO PROVE IT HURTS. ONE HAS TO PROVE THAT IMPORTS WOULD DESTROY OR INJURE A U.S. INDUSTRY... AN INDUSTRY THAT IS EFFICIENT AND ECONOMICALLY OPERATED.

TO EXCLUDE FOREIGN GOODS, PROOF OF PIRACY SHOULD BE ENOUGH. INFRINGEMENT IS INJURY. WE NEED TO MAKE THAT CLEAR.

BUT WE CAN'T STOP THERE. THE SO-CALLED INDUSTRY REQUIREMENT IS ALSO TOO BROAD. INVENTORS MUST EXPLOIT THEIR INVENTION BY PRODUCTION IN THE U.S. FOR BETTER OR WORSE, WE ARE MORE AND MORE AN INFORMATION BASED ECONOMY. FOR THOSE WHO INVEST IN RESEARCH... IN MARKETING... IN LICENSING... THERE SHOULD BE A REMEDY.

LET ME GIVE YOU ONE EXAMPLE. THERE IS A START-UP BIOTECH FIRM IN MY STATE. ITS PRODUCT IS ITS PATENTS. IT HASN'T REACHED THE STAGE TO MANUFACTURE. IT DOESN'T HAVE THE MONEY. BUT IT WILL REACH THAT POINT, BY LICENSING ITS PATENTS TO OTHERS. SHOULD WE DENY THAT FIRM THE RIGHT TO EXCLUDE THE WORKS OF PIRATES? I SAY NO.

STATEMENT OF HON. STAN LUNDINE, U.S. HOUSE OF REPRESENTATIVES, STATE OF NEW YORK

Senator **Danforth**. Congressman Lundine.

Mr. **Lundine**. Thank you very much, Mr. Chairman.

I would ask unanimous consent that my entire statement be made part of the record.

Senator **Danforth**. Without objection.

Mr. **Lundine**. At the outset, I would like to compliment you, Mr. Chairman, for your efforts to move trade legislation forward in the Senate. Next week, I am hopeful that the House will pass a comprehensive trade bill which we believe will succeed in helping to reduce our historic $150 billion trade deficit. We hope that you will also move forward and report your own version of trade legislation so that the Congress can act and send a trade bill to President Reagan this year.

Our trade deficit is a threat to our economic stability and growth. This year, as you well know, we became a net-debtor nation for the first time since 1914.

There are many aspects to this trade problem. The value of the dollar continues to be a problem. Even though it has been corrected with regard to some currencies, we have relationships with Third-World indebted countries that are problems and many others.

But, today, I am pleased to be here to endorse badly needed changes in one particular section of our trade laws, section 337 dealing with the protection of U.S. intellectual property.

Technological innovation has become a crucial factor of production in the modern, internationalized economy. If we are to compete effectively in the international marketplace, we must guarantee our inventors protection of their intellectual property rights. Currently, our trade laws are not adequate to protect inventors from infringement by imports.

Section 337 is the primary enforcement mechanism against foreign infringements of the rights of our intellectual property holders. The law has a number of conditions that must be met before relief is granted, which are difficult and expensive to satisfy. Moreover, the test for relief from a foreign infringer is much more stringent than what is required under our own domestic intellectual property laws.

In the United States, the patent holder must only prove infringement to get relief in a district court from a product or process infringement. Under section 337, a petitioner must overcome several evidentiary hurdles. First, he has to prove his patents have been infringed. Second, he must prove that there is a domestic industry in the United States using the patent. Third, the domestic industry must be efficiently and economically operated. Fourth, he must prove that the infringement has had the effect or tendency of destroying or substantially injuring the domestic industry.

Finally, after overcoming this heavy evidentiary burden, relief can be denied if the International Trade Commission finds that the relief is not in the public interest.

The law should not make it so difficult to obtain relief from unfair infringing imports. In the House, Congressman Bill Frenzel and I introduced legislation which is a part of the House trade bill to strengthen the protection for U.S. intellectual property against unlawful infringement by imports.

Our proposal advocates the removal of two of the four existing evidentiary requirements under 337 of the Tariff Act—the injury requirement and the requirement that the industry be economically and efficiently operated.

The administration testified in support of removing these provisions, and that so doing is consistent with GATT. A 1982 GATT panel reviewing section 337 found that the injury requirement was irrelevant to the loss.

Removing the injury requirement is a particularly important aspect to emerging high technology industries. The mere notion of demonstrating injury in a tangible sense through lost sales or declining markets fails to acknowledge the economics involved in a startup industry based on revolutionary technology.

I would like to give you an example from our own congressional district. Corning Glassworks, the world pioneer of optic fiber, failed to secure relief under section 337 from Japanese infringement of their pioneering patent purely because they could not prove substantial injury to their sales or markets and in an environment where world demand for optic fiber was growing.

In the final analysis, however, what might have been at stake in the Corning case is the long-term domination of a multibillion dollar world fiber optic industry. As we sit here today, the Japanese continue to violate Corning's patent to establish a competitive niche here in this country and elsewhere in the international fiber optic marketplace.

Some who are opposed to removing these onerous and unfair requirements from the law argue that to do so would turn the ITC into a patent court. The fact is that removing the injury and economically and efficiently operated requirements from the law will still require considerable ITC expertise to make determinations about the existence of a domestic industry and the public interest. The courts are not equipped to make either of these determinations. Moreover, the ITC has built up a considerable expertise in the intellectual property rights area over the years through its administration of section 337.

Strengthening our trade laws to deal with unfair trade practices is essential to reducing the trade deficit and preserving our long-term competitiveness.

I appreciate the opportunity to express my thoughts on this issue before you and look forward to working with you in the weeks ahead, hopefully, to enact trade legislation.

Senator DANFORTH. Congressman, thank you very much.

We hope to pass a trade bill in the Senate this year and go to conference with the House.

I am curious in general about the House's trade initiatives. Is it your view that the effort should be to enact legislation that the President will sign?

Mr. LUNDINE. Yes, sir.

Senator DANFORTH. We could do it in one of two ways. We could just seek a confrontation—we in Congress could seek a confrontation with the President, send him a bill that we know he is going to veto. Or we can attempt to write a bill that the President is going to sign.

Mr. **Lundine**. It seems to be my day to testify. I just represented the House Banking Committee before the Rules Committee of the House, which is struggling with that very issue of how can we provide for a reasonable rule that will allow for a debate of some of the issues that are contentious.

Believe me, this one legislator's intention, as somebody who has worked hard on trade for several years, is not to make a political point but to enact legislation.

Now, obviously, there are things in the House bill that even ultimately I can't imagine the administration accepting, perhaps that you wouldn't agree with. But don't believe everything you read in the Washington Post.

The bill is not crafted to be antitrade. It is crafted to try to boost world trade. It really is developed from that philosophy. A number of committees, six or seven House committees, have made contributions. There is nothing that the Members of the House care about as much as jurisdiction sometimes. We have overcome enormous obstacles.

I know there are compromises that need to be made. But this kind of thing that Bill Frenzel and I joined together and did on a bipartisan basis is the kind of thing that I think we could agree on. And I think——

Senator **Danforth**. I think in this area of 337 there is a lot of room for agreement between the House and the Senate and the administration. I was just asking more generally with respect to trade legislation itself.

I think that there are areas where we can improve that law, and I am sure that we will be reaching beyond the administration in a number of areas. But the basic question that we are going to have to face is will the President swallow what we send him or will he choke on it.

Mr. **Lundine**. Well, I honestly think it is not only my intention, but having worked closely with Majority Leader Wright, who has put together that House bill, I think it is his intention ultimately to get a bill that the President can sign. This President has vetoed fewer bills than any over a comparable period in modern American history. I think he tends to threaten it. I think we tend to posture. But when all is said and done, I think we tend to come together. You can play a major role in achieving that.

Senator **Danforth**. Senator Roth.

Senator **Roth**. Thank you, Mr. Chairman.

I only have a comment. I agree with you on your proposal. I think it is outrageous that an American patent can be violated and the foreign producer can continue unless he is able to show injury. It seems to me we either protect intellectual rights or we don't. And for that reason, I am a strong believer that we have to do away with this so-called injury test. So I look forward to working with you in that effort.

Senator **Lundine**. Thank you, Senator.

Senator **Danforth**. Thank you very much, Congressman.

[The prepared written statement of Mr. Lundine follows:]

Testimony
Congressman Stan Lundine
Senate Finance Committee
May 14, 1986

At the outset, I want to compliment you, Mr. Chairman, for your efforts to move trade legislation forward in the Senate. Next week, I am hopeful that the House will pass a comprehensive trade bill which we believe will succeed in helping to reduce our historic $150 billion trade deficit. We in the House urge you to move forward expeditiously to report out trade legislation so the Senate can act and we can send a trade bill to President Reagan's desk. Our trade deficit is a threat to our economic stability and growth. This year, we became a net debtor nation for the first time since 1914.

It is time for the Congress to act. About one third of our trade deficit is with Japan, a second third is with developing countries, and a final third is with Canada, Europe, and the rest of the world. Our actions must be ones capable of addressing all of these elements in an effective manner.

While some recent progress has been made to help deal with our inflated and unstable dollar on exchange markets, our dollar still remains a trade problem. It is true that the dollar has fallen against the yen and the mark, but this has been irrelevant to many other currencies affecting our trading posture. For example, Canada is our largest trading partner and the Canadian dollar is about 70 cents to our own. The currency relationships with many developing countries, such as Mexico and Brazil, are not affected by our dollar's movements against the yen and the mark.

Very little progress has been made on resolving other important components of our $150 billion trade deficit. We have a welcome change in direction with the Baker initiative on third world debt, but still no plan for implementation as of yet. Legislation I sponsored on third world debt, which is contained in the bill the House will hopefully pass next week, is complimentary to the Baker debt initiative. I hope you will give our proposal serious consideration in the Senate. Finally, we need to do much more in the area of export promotion, and to strengthen our nation's trade laws.

We must put a stop to the unfair trading practices of our international competitors. I am particularly pleased to be here today to endorse badly needed changes in one particular section of our trade laws, Section 337, dealing with protection of U.S. intellectual property.

Technological innovation has become a crucial factor of production in the modern internationalized economy. If we are to compete effectively in the international marketplace, we must guarantee our inventors protection of their intellectual property rights. Currently, our trade laws do not adequately protect innovators from infringement by imports.

Section 337 is the primary enforcement mechanism against foreign infringement of the rights of our intellectual property holders. The law has a number of conditions that must be met before relief is granted which are difficult and expensive to satisfy. Moreover, the test for relief from a foreign infringer is much more stringent than what is required under our own domestic intellectual property laws.

In the United States, a patent holder must only prove infringement to get relief in a district court from product or process infringement. Under Section 337, a petitioner must overcome several evidentiary hurdles. First, he has to prove his patents have been infringed. Second, he must prove that there is a domestic industry in the United States using the patent. Third, this domestic industry must be efficiently and economically operated. Fourth, he must prove that the infringement has had the effect or tendency of destroying or substantially injuring the domestic industry. Finally, after overcoming this heavy evidentiary burden, relief can be denied if the International Trade Commission finds that the relief is not in the "public interest."

The law should not make it so difficult to obtain relief from unfair infringing imports. In the House, Congressman Bill Frenzel and I introduced legislation, which is part of the House trade bill, to strengthen protection for U.S. intellectual property against unlawful infringement by imports. Our proposal advocates removal of two of the four existing evidentiary requirements under Section 337 of the Tariff Act -- the injury requirement and the requirement that the industry be economically and efficiently operated.

The Administration has testified in support of removing these provisions and that doing so is consistent with GATT. A 1982 GATT panel reviewing Section 337 found that the injury requirement was irrelevant to the law.

Removing the injury requirement is particularly important to emerging high technology industries. The mere notion of demonstrating injury in a tangible sense through lost sales or declining markets fails to acknowledge the economics involved in a start-up industry based on a revolutionary technology.

For example, Corning Glass Works, the world pioneer of optical fiber, failed to secure relief under Section 337 from Japanese infringement of their pioneering patents purely because they could not prove substantial injury to their sales or markets in an environment where the world demand for optical fiber was growing. In the final analysis, however, what might have been at stake in the Corning case is the long term domination of the multi-billion world fiber optic industry. As we sit here today, the Japanese continue to violate Corning's patents to establish a competitive niche in the international fiber optic marketplace.

Some who are opposed to removing these onerous and unfair requirements from the law argue that to do so would turn the International Trade Commission into a patent court. The fact is, though, that removing the "injury" and "economically and efficiently operated" requirements from law will still require considerable I.T.C. expertise to make determinations about the existence of a domestic industry and the public interest. The courts are not equipped to make either of these determinations. Moreover, the I.T.C. has built up considerable expertise in the intellectual property rights area over the years through its administration of Section 337.

Strengthening our trade laws to deal with unfair trade practices is essential to reducing our trade deficit and preserving our long term competitiveness. I appreciate the opportunity to express my thoughts on this issue before you and look forward to working with you in the weeks ahead to enact trade legislation.

Senator **Danforth**. Next we have a panel of James Moore, Deputy Assistant Secretary for International Economic Policy, International Trade Administration, Department of Commerce; Harvey Bale, Jr., Assistant U.S. Trade Representative for Trade Policy; Paula Stern, Chairwoman of the International Trade Commission.

Well, thank you all for being here.

Mr. Moore? I thank most of you who are here for being here. [Laughter.]

Chairwoman **Stern**. Saving remnants.

Senator **Danforth**. Ms. Stern, would you like to go first?

Chairwoman Stern. I would be happy to. I have a sense that I have been here before very recently.

Senator **Danforth**. You are a familiar face.

STATEMENT OF HON. PAULA STERN, CHAIRWOMAN, INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Chairwoman **Stern**. Thank you for including me on this panel today to share with you my thoughts on the proposed trade legislation concerning protection of U.S. intellectual property rights.

My experience implementing the Tariff Act of 1930 over the last 8 years has given me some expertise in this area, and I appreciate the opportunity to draw on this experience and give you my views.

You have my full statement, all 35 pages of it, and I will just submit a short summary of it now.

Let me start by saying that I endorse the intent of S. 1869 to write trade statutes which will enhance the competitiveness of U.S. industries in the world marketplace. The sponsors of that legislation have my deep and abiding respect.

My concern is that one part of those proposals, that is the removal of the industry and injury criteria from section 337, will not serve this purpose. And I also have no disagreements with the secondary intent of the proposal, and that is to improve the procedures of section 337.

But I must also add that I have some technical suggestions to make these changes administratively feasible without incurring unintended negative consequences.

And, finally, I certainly and heartily endorse the administration's announced program to improve the international intellectual property system.

But I start here this afternoon from the assumption that this is a hearing on a trade statute, section 337, and it is before members of the Trade Subcommittee of the U.S. Senate Finance Committee, who are facing the greatest competitive challenge to America in its 5th year of record-breaking trade deficits.

Our trade laws, particularly 337, are there to protect American entrepreneurs commercializing on their genius of invention. But removal of the economic criteria of industry and injury might not serve the best interest of the United States.

I urge you not throw the baby out with the bath water. I think you can enact trade legislation that is competitive legislation and then will also protect our intellectual property rights. And despite its good intent, I don't think this bill really makes that mark.

Let me give you a couple of examples where the removal of the economic criteria of industry and injury might not serve the best interest of the United States. Now say this bill passes as law. Consider this scenario. The foreign owner of a U.S. patent who brings a 337 complaint to the ITC against imports of a particular industrial product and accuses the domestic, the American domestic, users of that imported product as a contributary infringer. Under our current law, that which is on the books now, the foreign patent holder receives the extraordinary protection of section 337 only if there is a U.S. industry here using the patent in the United States.

But if the economic criteria are dropped from the law, the American industry could no longer get that imported product under this scenario. And under the proposed changes then we would have no industry being helped, no domestjc industry being helped. The complaint, as I would remind you, was a foreign producer, not an American producer. And this other domestic industry which was importing that product could be destroyed along with the jobs that were being given to workers using the product that was coming in.

Here is another scenario. Even if there were no current domestic users of this hypothetical product, this scenario would be disquieting. We are seeing more important high-technology potentially pioneering patents before the Commission.

But the removal of this economic criteria could leave the Commission being the referee between disputes of importers, importers jockeying for market share of the United States. And it would be of no benefit, again, to a domestic industry.

We could by means of this extraordinary proceeding and extraordinary remedy bar any U.S. participation in many industries of the future.

Furthermore, this proposal to remove industry and injury could weaken rather than strengthen 337 and concomitantly the efforts to strengthen intellectual property protection. One of the factors which has to date limited the effective use of 337 has been the unpredictability of its results, which causes lawyers and business people to be skittish about its use.

I have tried in my analysis at the Commission to be as predictable as possible in the way the statute is implemented. However, I believe that some of the proposals that we are talking about to change 337 could make 337 more susceptible to attacks at the GATT. And this, obviously, would make the outcome of our decisions much more unpredictable.

As our trade deficits increase, Congress' confidence in the President's trade policy has declined. I don't need to tell you that. The legislative proposals on the Hill have increasingly attacked those provisions that allow Presidential discretion in implementing relief under the trade statutes.

But in closing, I would just like to remind you that you have on the books in 337 legislation that was passed in 1974 that limited the President's discretion in reviewing Commission 337 remedy determinations. He has 60 days to accept or reject the Commission's determinations for policy reasons. However, because of some of the vagueness in the terminology since the 1974 law, the Office of the USTR as well as the Commission majority has in the past interpreted the provisions to mean that the President may devise his own remedy and make a counter offer to the Commission on our remedy.

Perhaps Congress should try to make effective the policies it has already enacted back in 1974 before making a total overhaul that removes this special protection to domestic producers. This is a serious problem. And, again, it weakens 337 by giving less predictability to the ultimate outcome of our investigations.

I support strong intellectual property statutes and strong balance of trade statutes. And I hope that by sharing my Commission experience with you this will be of some assistance to you as you review these proposals.

And I would be pleased to answer any questions.

Senator DANFORTH. Thank you.

[The prepared written statement of Chairwoman Stern follows:]

DR. PAULA STERN, CHAIRWOMAN
U.S. INTERNATIONAL TRADE COMMISSION

STATEMENT FOR THE SUBCOMMITTEE ON TRADE
SENATE FINANCE COMMITTEE
MAY 14, 1986

INTELLECTUAL PROPERTY AND TRADE

I want to thank the Subcommittee for making the time in your busy schedules to consider fully the legislation affecting international trade and the protection of U.S. intellectual property rights. The Commission's day-to-day implementation of section 337 of the Tariff Act of 1930 has given it much expertise in this area, and I will be drawing on this experience in commenting on S. 1869. Accompanying me today is our General Counsel, Lyn Schlitt, and our Director of the Office of Unfair Import Investigations, Art Wineburg.

In my testimony, I will first provide background information on section 337, including a review of the history of the statute, a summary of the outcome of all cases filed under section 337 since the 1974 Amendment, and a description of the timetable followed in section 337 investigations. I will then offer comments on the changes to section 337 proposed by S. 1869 and some changes which have been proposed in the House and by the Administration.

I would like to point out that the Commission is an independent, quasi-judicial agency and, as such, it does not take positions on proposed legislation. I will today present to you some of my personal views.

Background on Section 337 of the Tariff Act of 1930

From the beginning, section 337, which began as section 316 of the Tariff Act of 1922, has served to ensure that domestic industries are protected from injury arising out of unfair methods of competition in the import trade. Since the 1940's, section 337 was rarely utilized and did not become actively pursued by domestic industries until the 1974 Amendments. Prior to 1974, determinations of violation and remedy under section 337 were made by the President after recommendation by our predecessor agency, the Tariff Commission. There were no time limits on a section 337 investigation and often by the time a determination was made, the domestic industry's interest in a determination had waned.

So, section 337 was amended as part of the Trade Act of 1974. Substantively, section 337 did not change. The statute still outlaws unfair methods of competition in the import trade that substantially injure, tend to substantially injure or destroy an efficiently and economically operated domestic industry. This has been section 337's purpose since 1922. But the 1974 Amendment provided more timely and effective remedies and at the same time a more rigorous and fair procedure for determinations of violation and remedy.

Let me briefly describe the changes encompassed by the 1974 Amendment. First, the ITC was given sole authority to order any remedy available under section 337, withdrawing from the President all power to revise Commission determinations except the power to disapprove determinations for "policy reasons." Second, Commission determinations of violation of section 337 are now made after a full due process hearing as set forth by the Administrative Procedure Act. Third, the Commission is authorized to consider "all legal and equitable defenses" including, for the first time, invalidity and unenforceability of any patent or other intellectual property right at issue. Fourth, Commission determinations of violation and remedy are made within 12 months, except "complicated" investigations can be extended to 18 months. Fifth, the remedial power of cease and desist orders was added. The amendment also required that any remedial action taken against section 337 violations be consistent with the public interest. Sixth, the right of review of final Commission determinations to the Court of Customs and Patent Appeals (now the Court of Appeals for the Federal Circuit) was extended to all adversely affected parties including complainants. In 1979, section 337 was amended again to provide the Commission with a civil enforcement mechanism for cease and desist orders and to limit Commission jurisdiction under section 337 in situations which concurrently fell within both section 337 and dumping/countervailing duty jurisdiction.

Since the 1974 Amendment, the Commission has instituted 245 section 337 investigations. Twenty-one are currently active. Of the remaining 224, more than half, 129 to be exact, were voluntarily terminated by settlement, consent order or withdrawal by complainant. In 40, no respondents chose to appear, and in 33 of these a remedy was put in place. The remaining 55 investigations, or about one quarter, were fully contested by respondents.

Let me focus for a minute on the contested cases. An unfair act was found in 31 of these 55 investigations. An important fact is that in only three of these was there a finding of no violation of section 337 solely because complainant failed to carry its burden on the trade relief issues -- namely, the existence of a domestic industry or substantial injury to, or prevention of establishment of, a domestic industry. In another two investigations, a violation of section 337 was found, but the Commission concluded that the public interest precluded a remedy. In four investigations, the President disapproved of the Commission determination. In two of these a subsequent remedial order was not disapproved by the President.

In sum, in the 55 contested cases under section 337, the Commission found a violation in 27, and a remedial order was issued in 23. These statistics reveal that Section 337 is working: the straightforward cases are settled, those in which the dispute is more complex are properly and fully litigated, and the economic criteria are not an inordinate obstacle to relief.

Section 337 Procedures

A look at the procedures for administering a 337 investigation might help to enhance discussion of any proposed changes to existing law.

The Commission may institute a section 337 investigation on its own initiative or after the filing of a complaint under oath alleging violation of section 337. The filing of the complaint does not mark the beginning of the section 337 investigation. Instead, it triggers a 30-day period during which the Commission reviews the complaint for its adequacy and decides whether to institute an investigation. 19 C.F.R. (210.10(a). Unlike the notice pleading allowed in federal courts, in a section 337 complaint the Commission requires allegations to be supported by detailed statements of facts, both to assure the Commission that there are factual bases for the allegations and to give respondents adequate and timely notice in a time limited proceeding.

The Commission votes in a public meeting to institute a section 337 investigation and issue the Notice of Investigation. The investigation is then delegated to an Administrative Law Judge (ALJ), and the Notice of Investigation is published in the Federal Register. A copy of the Notice is served on complainant, and respondents are served with both the complaint and the Notice. Respondents located in the United States have 23 days after service in which to answer the complaint and Notice of Investigation. Because of the additional time required to effect service outside of the United States, foreign respondents have 30 days in which to answer. 19 C.F.R. ((210.21(a), 201.16(d).

The ALJ holds a preliminary conference approximately 45 days after an investigation is instituted. At this conference, the parties discuss the issues and their plans for discovery and the ALJ outlines the ground rules for the investigation. By and large, the Commission's Rules respecting discovery in Section 337 investigations are similar to the Federal Rules except that the time limits for responding to discovery in 337 investigations are shorter. As I mentioned, the Commission's proceedings to determine whether there is a violation of section 337 are now conducted in accordance with the Administrative Procedure Act.

In the case of requests for temporary relief, the ALJ has a limit of four months from the date of the Federal Register Notice to issue an initial determination as to whether there is "reason to believe" the respondents are violating section 337. 19 C.F.R. (210.53(b). During this period, the parties conduct discovery and brief the issues, an evidentiary hearing is usually held, and the ALJ writes an opinion and findings of fact. Once the ALJ issues the initial determination, the parties have five working days in which to petition the Commission for review of that determination. 19 C.F.R. (210.54(a). Regardless of whether any of the parties petition for review, the Commission has 30 days after service of the ALJ's determination to decide whether it wishes to review some or all of the determination on its own motion. 19 C.F.R.

§§210.53(h), 210.54(b), 210.55. If the initial determination on temporary relief is not reviewed within this 30-day period, the ALJ's determination becomes that of the Commission. 19 C.F.R. §210.53(h). If, however, the Commission does undertake review, it has up to 60 additional days to affirm, reverse or modify the ALJ's determination, and if necessary to fashion a remedy. 19 C.F.R. §210.56(d). Then, within 60 days of receipt of the Commission's determination, the President may disapprove the determination for policy reasons. 19 U.S.C. §1337(g)(2).

Fewer than one-quarter of all section 337 investigations have involved requests for temporary relief. Of course, all investigations involve requests for permanent relief, which must be decided by the Commission within one year after the Federal Register Notice, unless the Commission declares the investigation to be "more complicated." 19 U.S.C. §1337(b)(1).

With regard to permanent relief, the ALJ has a limit of nine months to hold a hearing and determine whether there is a violation of section 337. 19 C.F.R §210.53(a). After service of the ALJ's initial determination, the parties have 10 days in which to petition the Commission for review, and the Commission has 45 days to decide whether to undertake review. 19 C.F.R. §§210.53(h), 210.54(a), 210.55. Assuming the ALJ takes his/her full nine months to issue a determination, if the Commission takes review, it has an additional 45 days after ordering review to affirm, reverse or modify the ALJ's determination, and to fashion a remedy if a violation is found. During the 60 days following receipt of the Commission's determination, the President may disapprove the determination for policy reasons. 19 U.S.C. {1337(g)(2).

In those investigations which are designated "more complicated" -- and only about 10 percent of section 337 investigation have been so designated -- the Commission has up to 18 months from publication of the Notice to complete the investigation. 19 U.S.C. {1337(b)(1). In such investigations, the ALJ has up to 14 months to issue a determination and the Commission has 45 days to decide whether to take review. 19 C.F.R. {{210.53(a),(h), 210.54(b), 210.55. Assuming the ALJ takes his/her full 14 months, the Commission then has up to two and a half months to issue its determination on both violation and remedy. Here again, there is a 60-day Presidential review period. 19 U.S.C. {1337(g)(2).

S. 1869 - Amendments to Section 337

S. 1869 would make major changes in section 337. As I read this bill, the principal features are:

1. In section 337 investigations based on alleged patent, copyright, trademark, or mask work infringement, or misapprppriation of a trade secret, it would be unnecessary to establish either that there is a domestic industry or that the effect or tendency of the infringement or misappropriation is to destroy or substantially injure that industry or to prevent the establishment of that industry.

2. In section 337 investigations in which it is alleged that the effect or tendency of respondents' unfair acts or methods of competition is to destroy or substantially injure the domestic industry, it would be unnecessary to establish that the domestic industry is efficiently and economically operated.

3. In section 337 investigations, respondents' unfair acts or methods of competition that impair the establishment of a domestic industry would be just as actionable as those that prevent the establishment of such an industry.

4. The Commission would rule on petitions for temporary relief within 90 days of the date on which the petition is filed and the Commission would be empowered to require the petitioner to post a bond as a prerequisite to the issuance of temporary relief.

5. The Commission would be explicitly empowered to issue cease and desist orders "in addition to" exclusion orders.

6. In cases in which the complainant seeks relief only against certain respondents and those respondents are in default, the Commission would presume the facts alleged in the complaint and issue relief limited to the defaulting respondents.

7. The Commission would be empowered to order seizure and forfeiture of goods imported in violation of section 337.

I would like to give you some observations on these proposals:

1.) In section 337 investigations based on alleged patent, copyright, trademark, or mask work infringement, or misappropriatiion of a trade secret, it would be unnecessary to establish either that there is a domestic industry or that the effect or tendency of the infringement or misappropriation is to destroy or substantially injure that industry or to prevent the establishment of that industry.

This would create an irrebuttable presumption that unfair acts found to exist have the effect or tendency to destroy or substantially injure a U.S. industry. This reflects the admirable objective of trying to strengthen the protection of U.S. intellectual property rights. I appreciate the efforts of Senator Lautenberg and members of this Subcommittee in this area. However, the transformation of the ITC into a forum to litigate purely intellectual property rights raises some concerns about private rights of parties involved in intellectual property disputes and about allocation of agency and judicial responsibilities and resources.

While the ITC would be, in many respects, indistinguishable from a federal district court adjudicating certain private intellectual property disputes, we would retain certain procedures of a trade relief statute. Our *in rem* general exclusion orders would apply against persons not party to the investigation, and so someone not having an opportunity to litigate the intellectual property issues could nevertheless be branded an infringer.

Further, the bill would leave untampered our public interest role so we could theoretically deny relief to a party which has established its "private right" because we don't believe it is in the public interest to grant relief. And, the bill also leaves untouched Presidential review of our decisions which he may veto for policy reasons. Neither our public interest review nor the President's policy review involves the issues of validity and infringement of the intellectual property at issue, and yet if we deny relief because of public interest, what is the status of our decision on the private rights between the parties? At least with respect to patent validity and enforceability, they are not res judicata nor binding on district courts. The parties may not be able to seek review of our decision on the intellectual property issues, and so under the principles of res judicata and collateral estoppel, the decision would appear to have no effect on the rights of the parties. In fact, the legislative history of the 1974 Amendments limits the effect of section 337 findings on patent issues to the section 337 investigation itself, and according to the Senate Finance Report of the 1974 Amendment "should not have a res judicata or collateral estoppel effect in cases before [federal district] courts." S. Rep 93-1298, 93rd Cong. 2nd Sess. at 196 (Nov. 26, 1974). Thus, a finding of invalidity or unenforceability of a patent by the ITC would allow and perhaps encourage the patent holder to try another forum -- a district court.

An important element of the legislative history leading up to section 337 is that section 337 was created to be "in addition to" all other remedies at law. Should changes be made to the statute which do not take this into account, more jurisdictional problems arise. For example, a respondent faced with an unfavorable patent finding at the ITC may be able to pursue its other remedies in law -- a declaratory judgment action in federal court. Similarly, a party bringing a declaratory judgment action in federal court because it is convinced a patent is invalid or unenforceable, or that its actions are not infringing the patent may still be required to adjudicate the issues at the ITC. Moreover, despite my above comments on res judicata, the federal court confronted with an ITC determination on an intellectual property right might just decide for itself to accept the ITC determination and not try the dispute anew. And a patent owner who receives an unfavorable patent ruling at the ITC could, to its surprise, find that a district court will apply the ITC ruling.

This forum shopping runs contrary to principles of fairness, judicial economy, and finality. Moreover, the ITC does not consider counterclaims, contrary to the judicial principle of resolving all related disputes between the parties at one time in one forum. Further, no right to a jury trial is available at the ITC, and no money damages are available at the ITC. What we might see is even more duplication in U.S. litigation -- patent disputes simultaneously being litigated in federal court and at the ITC.

As you know, section 337 investigations operate under severe time deadlines. Whereas practically all section 337 patent-based investigations are completed within 12 months, only half the patent-based trials in federal district courts are completed within 29 months. This time differential for adjudication is significant and may provide tactical advantages that could translate into abridgment of rights. The Commission takes its deadlines very seriously. We infrequently declare an investigation more complicated and even more infrequently take the entire six additional months permitted. In fact, the 12-month deadline is only a limitation, and our responsibility is to process an investigation even more expeditiously if possible.

This bill, by making section 337 a purely intellectual property statute, will also inevitably affect the rights of persons who hold U.S. patents, copyrights, trademarks, mask works, and trade secrets and those accused of infringing them. This change in section 337 would transform the ITC from a body applying trade remedy laws to a quasi-advisory board involving intellectual property disputes. However well meaning, this approach is fraught with potential problems.

First, eliminating the domestic industry and injury requirement has the effect of removing an important economic policy factor which past Congresses intended the Commission to consider and balance with that of the protection of intellectual property. According to the Senate Finance Committee Report that accompanied the 1974 Trade Act, the overriding concern in our administration of section 337 is the "public health and welfare and the assurance of competitive conditions in the U.S." I interpret this directive to mean that the Commission is to balance both the public interest that is served by protecting intellectual property rights and that served by the entrepreneurial activity which results from a patent's exploitation. I am concerned that the proposed legislation can be read to elevate the protection of intellectual property rights (regardless of whether they are ultimately commercially exploited) over other important public interest goals. After all, society benefits most from the fruits of the inventor when intellectual property rights are exploited through the efforts and capital of the entrepreneur. It is this production-related activity which in turn spawns economic growth. Society does not benefit directly from protecting a particular invention unless that idea is ultimately exploited.

Certainly there is merit in encouraging widespread knowledge so that our laws protect intellectual property and the spirit of the inventor. Indeed, this is the job of the federal courts. The Administration argues that the economic criteria should be removed from section 337 because it is harder for U.S. firms to get effective relief from foreign infringers than from domestic infringers. I agree that 337 fills a gap in our intellectual property system which will exist until we have a much improved international intellectual property system. And I heartily endorse the efforts of the Administration to improve the international intellectual property system. However, 337 as it is currently constituted is effective in providing a forum which solves many of the jurisdictional and enforcement problems associated with foreign respondents.

Moreover, I believe Congress wisely established section 337 as an additional place for relief that is merited only after the ITC has balanced intellectual property rights with the public benefits of competition and economic growth, which come only when the creativity of the inventor is combined with the tenacity of the entrepreneur. In this way section 337 will continue as well to serve as a spur to our great research institutions who hold the rights to large amounts of intellectual property to move this knowledge as quickly as feasible to domestic commercialization.

Otherwise, the absence of a domestic industry requirement could leave the Commission arbitrating among importers jockeying for market share in the United States with no appreciable contribution to America's production capability or workers' jobs in the United States. We could serve a consumer protection role relative to imported products, but there are others who already perform these functions. The original intent of 337 was the protection and consequent encouragement of American production, American jobs, American capital from unfair competition from imports. This continues, I believe, to be an important public policy objective. If Congress intends for the ITC to arbitrate importers' market shares and protect U.S. consumers as primary functions, 337's effectiveness as a trade statute protecting U.S. productive capacity and workers' jobs will be reduced.

I therefore believe that to be consistent with the public interest purpose of section 337, the domestic industry and injury standard should be maintained, and should continue to require more than the mere ownership of a U.S. intellectual property right.

I would be proud to stack up the professional staff of the U.S. International Trade Commission against an equivalent group in any governmental institution anywhere. This particularly applies to our very able staff of Administrative Law Judges and the Office of Unfair Import Investigations who are so important to the 337 process. But I know that you on this Committee understand that our great expertise, our great storehouse of knowledge, is in the micro-economic assessment of industries and their competitiveness, including the impact of trade, i.e., imports. I do not want to minimize the experience we have gained in the intellectual property field since 1974. But if the focus of section 337 is only to be validity, enforceability, and infringement, then perhaps the Commission is not the most appropriate location in the U.S. Government for this jurisdiction.

Second, a large portion of our 337 caseload is based on multiple unfair acts which almost always include allegations of patent, copyright, or trademark infringement as well as activities such as false advertising and misleading packaging. Should the standards for domestic industry and injury be eliminated for patent, copyright, trademark, and mask work infringement and misappropriation of trade secrets but continue to be required for other unfair acts, the Commission will find it difficult to apply different standards in cases involving both types of unfair acts. Further, the absence of an industry and injury requirement will exacerbate the potential for problems in determining primary responsibility for areas such as false advertising between ourselves and the Federal Trade Commission.

There are additional serious trade policy concerns. Eliminating the industry requirement would likely lead to a substantial increase in the use of section 337 by foreign companies. Last year 44 percent of all U.S. patents issued were awarded to foreign entities. Under the proposed statute, a foreign company whose only connection to the U.S. was ownership of a U.S. patent, could have an action under 337 against its U.S. competitor, who might be importing components of the product at issue. Thus, foreign owners of U.S. intellectual property rights could prevent the industries of the future from being established in the United States. This is a particularly frightening scenario if a pioneer patent were to be involved. If this bill is read to elevate intellectual property rights over other public interest goals, then 337 could be used to exclude the United States from the potential industries of the future.

Intellectual property is on the table for the new round of trade negotiations in the General Agreement on Tariffs and Trade. Many believe that section 337 is covered by the "Grandfather Clause" of the GATT Protocol of Provisional Application as long as its substance is preserved as it existed on October 30, 1947. If so, a change to the injury requirement could have repercussions in the GATT. Our injury standard, while not very stringent, is perceived by our trading partners as an offset to aspects of 337 to which they object, such as time limits and different evidentiary standards. In fact, the European Community is currently processing a complaint against section 337, under its new Regulation No. 2641/84, which could lead to GATT proceedings.

For a very interesting disucssion of the GATT issues relative to section 337 I would refer you to the Testimony of Professor Robert E. Hudec before the House Committee on the Judiciary, Subcommittee on Courts, Civil Liberties and the Administration of Justice on April 23, 1986. Professor Hudec maintains that section 337 as it presently stands is not protected by GATT's "Grandfather Clause" as it does not qualify as "mandatory' legislation. This analysis is based on the President's power to avoid the GATT violation by ruling that no action be taken. More importantly, however, is Professor Hudec's questioning of whether section 337 qualifies for an Article XX(d) exception and how much reliance should be placed on the Spring Assemblies panel decision. I believe that there are no simple answers to the GATT issues raised, and I am convinced that they deserve a closer look than they have received to date from either the Administration or the Congress.

The GATT negotiation issue relative to the industry requirement raises the question of whether the Administration is giving foreign owners of intellectual property access to 337 protection without getting anything in return in GATT negotiations. The Administration does not consider this a problem, and in fact hopes that other countries will see our shining example and simply follow suit by giving U.S. intellectual property holders in their jurisdictions similar protection. However, it would seem to me that if this is a goal of the Administration, it is less readily accomplished by giving away access to 337 to foreign intellectual propety owners than by negotiating reciprocal rights in advance. Further, should we at a later time wish to undo this unilateral grant of access, we would have clearly given up our "grandfather" rights.

I note that S.1869 uses the term "trademark" without qualification as to the type of trademark. It is thus unclear whether the bill is intended to cover both registered trademarks and common-law trademarks or only registered trademarks. If the bill is intended to cover only registered trademarks, which are more akin to patents and copyrights than are common-law trademarks, then it would be preferable to use the specific term "registered trademark." Both H.R. 4750, the House Ways and Means Committee's omnibus trade bill, and the Administration's "Intellectual Property Rights Improvement Act of 1986" cover only registered trademarks in their equivalent provisions.

More importantly, neither H.R. 4750 nor the Administration's proposal eliminates the injury standard for trade secrets. This would be a very difficult change for the Commission to administer. The very existence of a trade secret is generally a question of fact and not established until the end of a proceeding. Trade secret law is state law and may vary from state to state. Patents, copyrights, and federally registered marks are presumptively valid and governed by federal statutes which are for the great part uniformly applied by the federal courts. All these federal statutes have provisions for recording assignments. The subject matter of patents, copyrights, and federally registered marks are defined, but that of trade secrets is often left for definition. I urge you to reconsider giving them equivalent treatment. A foreign manufacturer or U.S. importer can be considered on notice as to a patent, copyright, or federally registered mark, but not a privately held trade secret.

On the question of requiring the existence of a domestic industry, H.R. 4750 retains such a requirement and the Administration's proposal retains a domestic industry requirement except where the Commission has found patent, trademark or copyright infringement. If the desire of Congress is to give the Commission more explicit direction on who should and who should not be entitled to 337's extraordinary relief, then you might simply provide that a finding of an industry in the United States be based on the nature and significance of the activities in the United States of the complainant and its licensees in exploiting the intellectual property right at issue. Legislative history could then be developed which would delineate what types of activities would normally be considered of such a nature to support a finding of a domestic industry.

2.) In Section 337 investigations in which it is alleged that the effect or tendency of respondents' unfair acts or methods of competition is to destroy or substantially injure the domestic industry, it would be unnecessary to establish that the domestic industry is efficiently and economically operated.

The present efficient and economic operation requirement may enlarge the discovery record and the hearing record with concomitant additional costs to the parties and the Commission. It may also place large amounts of confidential information at risk. However, using our trade statutes and border control enforcement in a situation where the domestic industry is inefficient and will not be economically viable is a waste of resources. It is not in the public interest that relief be given to an industry unable to utilize it.

I recommend moving this criteria to the list of public interest factors considered by the Commission in deciding whether to issue a remedy. Section 337(d) requires that if the Commission finds a violation of the statute, prior to ordering relief, it must consider the effect of relief on the public health and welfare, competitive conditions in the United States economy, production of like goods in the United States, and consumers. This is not part of the APA determination of violation, but rather a separate finding made by the Commission on the advisability of issuing a remedy. Efficient and economic operation could be one of the factors considered in this phase of the investigation. This would remove the issue from potential discovery abuse in the APA proceedings before the ALJ, and yet retain the principle that we do not protect industries which are not economically viable. Retaining this concept in the statute becomes more critical, of course, if the domestic industry and injury criteria have been removed. It would in that event provide the Commission with a clear public policy escape valve for those rare instances when relief would not be effective.

3.) In section 337 investigations, respondents' unfair acts or methods of competition that "impair" the establishment of a domestic industry would be just as actionable as those that prevent the establishment of such an industry.

In my opinion, the Commission is not so legalistic that it could not accomplish the same result intended by the proposal under the current language. In fact, where faced with the question, under the material retardation standard in our dumping/countervailing duty jurisdiction, we have reached a similar point. Of course, the statutory language and the legislative history could be considered ambiguous in so far as it is not clear whether "impairment" and "prevention" are completely analogous, and thus both actionable. Thus, should reform in this regard be deemed necessary, I would suggest that the word "substantial" be added to "impairment." This would prevent the misinterpretation that any nuisance was actionable.

4.) The Commission would rule on petitions for temporary relief within 90 days of the date on which the petition is filed, and the Commission would be empowered to require the petitioner to post a bond as a prerequisite to the issuance of temporary relief.

The proposed 90-day deadline from date of filing would create severe procedural and practical difficulties for both complainants, respondents, and the Commission. Under present Commission procedures, the ITC does not normally institute an investigation until 30 days after a complaint is filed. Because ITC Rule 210.24(e)(2) encourages the filing of motions for temporary relief along with the complaint, the time period for acting on the request for temporary relief would be effectively reduced to 60 days.

During this 60-day period, the parties may need to take discovery, a hearing may have to be held, the ALJ would have to make a determination based on the hearing and other evidence of record, and the Commission would have to determine whether the ALJ's decision warrants review and/or reversal. It is thus quite possible that such a 60-day time limit could deny complainant an adequate opportunity to take discovery necessary for a showing of likelihood of success on the merits, deny respondents the opportunity to prepare a defense as to irreparable harm, and limit the available time at the hearing for the parties to confront and contradict adverse evidence.

Moreover, the proposal makes no provision for lengthening the 90-day temporary relief deadline (to, perhaps, 135 days) in cases designated "more complicated." A longer temporary relief deadline for "more complicated" investigations may be appropriate in light of the greater complexity of such cases. The Commission currently has within its discretion the ability to provide complainants with effective temporary relief within the parameters of the statute as it currently stands. The APA does not absolutely require full evidentiary hearings, including cross-examination and complete discovery, in all section 337 temporary relief proceedings.

The ALJ's can improve Commission procedure where discretion allows. They can, for example, substitute written for oral testimony in the case of hearings for temporary relief. Certain limitations, when exercised reasonably, do not offend due process; are within the Commission's discretion under APA proceedings; and would guard against delays frustrating the purposes of section 337. On this issue, I would refer you to my recent additional views in Certain Products with Gremlins Character Depictions, Inv. 337-TA-201.

While the absence of alacrity cries out for attention, an inflexible 90-day time limit may not be the answer. H.R. 4750 provides for a 90-day limit from the time the Commission's notice of investigation is published in the Federal Register and allows an additional 60 days in a case designated more complicated. These provisions remove some of the problems with this proposal.

The proposed legislation also empowers the Commission to require complainants to post a bond as a prerequisite to the issuance of temporary relief. This would conform Commission practice more closely to that of the federal courts. It also might give more confidence to the Commission in the exercise of its discretion to grant temporary relief. It is a good idea.

The bill does not specify whether respondents or the United States are to receive the bond in the event that it is forfeited. It also does not specify on what basis the bond is to be calculated.

I note that the bill does not amend the portion of subsection (e) of section 337 which deals with circumstances where the Commission has found temporary relief to be warranted, and importation continues by the respondents under bond during the pendency of an investigation. Under 337(e), the bond is posted by respondents. If forfeited, it goes to the United States Treasury. Thus, S. 1869 makes it possible for a situation to arise wherein both complainant and respondents must post bonds during portions of the investigation.

5.) The Commission may issue cease and desist orders "in addition to" exclusion orders.

I have always found it proper under the current statutory scheme to consider issuing a cease and desist order as well as an exclusion order, if it is appropriate. In the past, the Commission has issued both an exclusion order and cease and desist orders in the same investigation; but the different types of remedial order were directed to separate and distinct unfair acts. In a recent case, however, the Commission issued both an exclusion order and a cease and desist order covering the same unfair act (Metal Cutting Snips, 337-TA-197). Thus, authorizing the Commission to issue cease and desist orders "in addition to" exclusion orders, would confirm current Commission practice.

There are circumstances where it is in the public interest to issue both an exclusion order and cease and desist orders for the same violation. For example, a cease and desist order prohibiting a domestic respondent from selling the product may be appropriate when the infringing product has been stockpiled and in addition an exclusion order may be appropriate to exclude future shipments of the infringing product. I would refer you to the views of Commissioner George Moore and myself in Doxycycline, 337-TA-3. Should the bill be enacted, it would be without legal question that the Commission has authority to order such relief when the Commission determines that both remedies are necessary. It is a good idea.

6.) In cases where the complainant seeks relief only against certain respondents and those respondents are in default, the Commission must presume the facts alleged in the complaint and issue relief limited to the defaulting respondents.

The Commission currently issues relief against respondents found in default only if the record developed establishes a prima facie case of violation (or reason to believe there is a violation) of section 337. The proposal requires the Commission, upon request of complainant, to issue relief against a defaulting respondent, provided the respondent has been served with the complaint and the Commission's notice of investigation.

The Commission has rejected an automatic default rule because it is subject to abuse. For example, a complainant can bring a section 337 complaint involving a dubious charge of unfair competition and name as respondents entities which it has reason to believe will default. Large numbers of small, foreign respondents are, of course, common. Under the proposal, the complainant could exclude articles of its competitors even though no unfair act or method of competition had occurred.

The Commission's default standard is also founded in a recognition that we are doing more than processing private business disputes in section 337. We are making decisions to serve the public interest. 337 offers an extraordinary, stringent remedy following procedures whose time limits pressure completeness.

It costs the U.S. taxpayer to enforce these remedies through the auspices of an already heavily utilized U.S. Customs Service. I would submit that refraining from triggering this mechanism on the basis of mere allegations serves the national interest. The requirement for "substantial, reliable and probative evidence" is not onerous.

In the five cases decided under the current Commission default rule, the complainant has obtained relief in three instances. Certain Foam Earplugs, Inv. No. 337-TA-184 (1984); Certain Bag Closure Clips, Inv. No. 337-TA-170 (1984); Certain Trolley Wheel Assemblies, Inv. No. 337-TA-161 (1984). No violation was found in Certain Products With Gremlins Character Depictions, Inv. No. 337-TA-201 (1985), and Certain Softballs and Polyurethane Cores Therefor, Inv. No. 337-TA-190 (1985).

The problem with default lies not in our prima facie standard, but what our ALJ's have interpreted as necessary to establish a prima facie case. The default rule has been interpreted to mean that the evidentiary showing required in a default situation necessarily entails a full evidentiary hearing under all circumstances. Although many cases involving default have been based on a record which includes an evidentiary hearing, there is an earlier line of cases which demonstrates that a showing of "substantial, reliable and probative evidence" to establish complainant's prima facie case does not necessarily require it. I would again refer you to my recent views in Gremlins.

7.) The Commission would be empowered to order seizure and forfeiture of goods imported in violation of section 337.

Importation of goods in violation of our outstanding exclusion orders can constitute Customs fraud and the Customs Service can already seize the goods and require forfeiture in certain situations. I refer you to 19 U.S.C. 1592. The Commission should have authority to enforce its orders, but we should not duplicate the powers which already exist at Customs.

In addition to the enforcement of our orders, the remedy of seizure and forfeiture is presently available under the Customs regulations for trademark and copyright violations without a 337 proceeding. I refer you to 19 C.F.R. Section 133.52. Additionally, the Copyright Statute, 17 U.S.C. Section 603, provides that articles forfeited for violation of the copyright laws should be destroyed. However, it provides that the articles may be returned to the country of export whenever the importer had no reasonable grounds for believing that his or her acts constituted a violation of law.

The Customs law also specifically sets forth at 19 U.S.C. Section 1526 provisions for the treatment of goods which are in violation of the trademark laws. The Customs regulations, in carrying out these provisions, provide that articles bearing a counterfeit trademark shall be disposed of, after obliteration of the trademark, by government use, gift to charity, sale of destruction. Articles that are in violation of that trademark laws, other than articles bearing a counterfeit trademark, shall be disposed of in accordance with the procedures applicable to forfeitures for violations of the Customs law, after removal or obliteration of the trademark.

Our agency does not exercise any police power; an arena that this provision could move us into.

Additional Amendments to Section 337

I would like to mention a few minor changes to Section 337 which are not currently addressed by this bill, but which deserve some consideration.

A provision should be added to section 333 of the Tariff Act, 19 U.S.C. Section 1333, prohibiting the Commission from disclosing to any person information submitted to it which is designated as confidential by the person submitting it, unless the person submitting it consents to its release, or the Commission releases the information pursuant to an administrative protective order that safeguards its confidentiality.

A great deal of information, which would harm the competitive position of the submitter if disclosed, is collected as part of the record in Commission investigations. In some investigations, such as those under section 337, this information is disclosed to outside counsel involved in the investigation under protective order, but not to the public. Companies are justly worried that in the future the Commission might change its policies regarding release, and decide to release information it no longer considers confidential, despite the fact that the submitter does.

A similar concern prompted passage of section 777(b)(1) of the Trade Agreements Act of 1979, 19 U.S.C. Section 1677f(b)(1). That provision prohibits unconsented release, except under protective order, of information designated confidential by the submitter in investigations conducted under Title VII of the Tariff Act of 1930. Arguably that provision is broad enough to cover all information submitted in confidence to the Commission because on its face it is not limited to investigations under Title VII of the Trade Agreements Act. However, a reading of the section as a whole strongly suggests that it may be limited to Title VII investigations, and the Commission has read it as applying only to those investigations. Congress should be explicit that it prohibits the Commission's unconsented release of information except under protective order.

H.R.4750 contains a provision which addresses this concern. Section 337 now requires an affirmative determination that imports have the "effect or tendency" to destroy or substantially injure the domestic industry. The Commission requires a present "effect" since requiring only a present "tendency" would read "effect" out of the statute. The Commission considers tendency to be the analogue to threat of injury in other trade relief statutes. The "tendency to destroy or substantially injure" language in section 337(a) should be clarified to conform with the current Commission practice to make clear that it is a threat to injure the domestic industry. H.R. 4750 contains language which would accomplish this clarification.

Another point which could use clarification is the "no force or effect" language of section 337(g)(2) relative to the status of a Commission order following a Presidential disapproval. Some believe that the Commission order remains alive and capable of modification following disapproval. This leads to serious problems in preventing political considerations from entering into any subsequent remedy recommendation by the Commission. The executive branch could, for example, say it is disapproving a remedy, but if the Commission recommended another less restrictive remedy, the President would approve it. This approach frustrates the intent of the 1974 Amendment removing the President's power to revise Commission determinations. I would refer you to my dissenting opinion in Certain Headboxes and Papermaking Machine Forming Sections for the Continuous Production Paper, and Components Therefor, 337-TA-82A, and my additional views in Certain Molded-In Sandwich Panel Inserts and Methods for Their

Installation, 337-TA-99 (Modification Proceeding). The system will produce the most objective, best economic results if the President is forced into a clear up or down decision with no room for the executive branch to negotiate with the Commission for the most politically palatable relief. This would also force the President to implement the relief which the Commission has determined as necessary. Therefore, the ambiguous term "no force or effect" should be replaced by the clarity of "null and void". Of course, if equitable circumstances dictated, the Commission could self-initiate a new investigation following a Presidential disapproval, adopt the record from the previous proceeeding, update the record, and issue new remedy orders.

Two additional helpful provisions which are contained in H.R. 4750 and which I would bring to your attention would grant specific authority to the Commission to terminate cases on the basis of consent orders and settlement agreements and specific authority to sanction abuse of discovery and abuse of process.

This concludes my testimony. I would be pleased to answer any questions you may have.

STATEMENT OF DR. HARVEY E. BALE, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR TRADE POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Senator **DANFORTH**. Mr. Bale.

Dr. **BALE**. Thank you, Mr. Chairman.

I am here expressing the views of the administration in support of the principles which are contained in S. 1869 and are contained in title 8 of 1860.

My testimony, which is submitted for the record and I won't read for the benefit of everybody here, refers to these titles, refers to S. 1860, 801 and 802, and I will refer in my verbal remarks to the provisions under question in terms of that bill.

Again, the administration supports the removal of the injury test. It also supports the removal of the industry and EEO test, the economic and efficienctly operated test, from section 337. It also supports the coverage under our patent laws of products which are imported made by processes patented in the United States.

Basically, we are in agreement. And what I think I want to do today is briefly cover some of the minor, although some significant, differences in the administration approach, and that in S. 1860 and 1869.

In the administration approach, again, we wish to remove the industry injury and EEO test. In 1869 and 1860 it appears that there is—well, there is a certain degree of ambiguity as to whether or not there is a removal of the industry test. In some bills that are before the Congress, the industry test is exclusively retained. But that is one in the administration versus S. 1860's approach.

The explicit coverage of the intellectual property rights in the two approaches are similar, although S. 1860 would cover not only patents, trademarks, copyrights, and mask works but also trade secrets. Here I think there is a question about trade secret law in the sense that it does vary from State to State and a question about whether it should be covered. Again, the administration bill does not explicitly cover that activity, although it is a very important part of the intellectual property issue.

In the temporary exclusion order determinations of the two approaches, the administration does have an extension of 45 days for complex cases. Whereas, S. 1860 does not.

Both approaches are similar with regard to the penalty for the violation of the ITC order, including twice the market value.

On forfeiture and default, the administration does not propose changing those because it believes that basically the authority already exists with regard to those two provisions of 337 while in 1860 there is a suggested change.

In the process patent law, again, the administration basically supports this proposal in 1860 and 1869. A few differences there exist that are not major perhaps, but need to be studied further.

The administration restricts the process patent coverage to direct use of the process to prevent cases where the infringement occurs in an inconsequential and very early stage of transformation of a product covered by a processed patent. For example, the process for making glue—if the process for making glue is infringed, and the glue is eventually used to make shoes, the shoes would not be excluded under a violation of processed patent for glue.

In 1860 there appears to not be a limitation to direct process patent infringements.

Again, there are a couple of other minor differences with regard to those already making a product infringing a U.S. processed patent after enactment. Perhaps the one major difference that we have in the burden of proof question. The administration proposes to shift the burden of proof where there is substantial reason to believe that the foreign product is infringing a U.S. patent, whereas S. 1860 seems to be silent on that issue.

The rest of my comments I would like to relate to the broader questions, if I could briefly do so, concerning intellectual properties because I think these proposals are an important part of a more general approach that has to be taken to a very important, critical issue, and I couldn't agree more with the comments made so far by you, Mr. Chairman, Senator Roth, Congressman Lundine, and Senator Wilson.

First of all, a key element to this approach has to be consultations with the private sector. We have dome this in several ways. One way in which this has been done is to consult with the President's Advisory Committee on Trade Negotiations. That committee, which is chaired by Edmond Pratt, CEO advisor, constitutes members of the business community, labor community, public-interest sector, academia. It established a task force on intellectual property last summer.

That task force came up with two reports, which I would be happy to submit for the record, if there is a request to do so. But those two reports laid out basically a very good framework for USTR and the administration to pursue both multilaterally and bilaterally issues of intellectual property protection.

In addition, the USTR and the administration have consulted with groups such as the International Anti-Counterfeit Coalition, the newly formed Intellectual Property Committee, the Intellectual Property Owners Association, the International Intellectual Property Alliance and others concerning problems they have both in terms of specific issues and more general approaches to concerns involving intellectual property protection abroad.

There were also consultations with individual companies, companies such as chemicals where there have been problems in Taiwan and elsewhere; problems of book publishers in Canada and other countries. They have consulted with the administration and the USTR to try to solve their problems and develop approaches that are most appropriate.

A second general aspect of this work, again, relates to laws on the books in the United States dealing with access to the U.S. markets for products that infringe U.S. copyright, patents, trademarks, et cetera. These proposals in 1860, 1869 would constitute an important contribution to dealing with the problem of how we deal with products that infringe U.S. intellectual property rights.

Another element, of course, of this has to be bilateral initiative. The USTR right now is engaged in consultations under the Trade Act of 1984 to deal with GSP. We have indicated to countries which are beneficiaries of GSP what we expect of them in terms of proposed changes in their intellectual property laws and what we plan to do in the context if changes are made and what we plan to do if changes are not made.

We have also undertaken initiatives under section 301 of the Trade Act of 1974 to deal with intellectual property problems in Brazil and in Korea.

Furthermore, other consultations which my colleague from the Commerce Department perhaps can go into further involving the Office of the Patent and Trademark as well as the Internationat Trade Administration, along with USTR and others are involved in.

Finally, I would like to say something about the multilateral efforts. Reference today has been made——

Senator DANFORTH. Can you do so in an abbreviated fashion?

Mr. BALE. All right.

We are doing two things multilaterally. The GATT is an important element of our multilateral strategy as well as working with those institutions that deal with traditionally intellectual property issues.

One final word I would like to say about legislation. There are two proposals, which in our view, damage the prospect for intellectual property protection abroad. One is part of 1860, and that is the automatic graduation of certain countries from the generalized system of preferences, three countries in particular that are important targets for the USTR in approving intellectual property protection.

The other provision, which is currently before the Congress, is the extension of the manufacturing clause, which, again, in an unintended way, I believe, on the part of those who believe it can help intellectual property protection improvements abroad, in fact, will reduce that protection abroad; not improve it.

Thank you, Mr. Chairman.

[The prepared written statement of Mr. Bale follows:]

STATEMENT ON INTELLECTUAL PROPERTY AND S. 1860
OF
DR. HARVEY E. BALE, JR.
ASSISTANT U.S. TRADE REPRESENTATIVE FOR
TRADE POLICY AND ANALYSIS

BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE OF REPRESENTATIVES

May 14, 1986

> "Look Around The Habitable World, How Few
> Know Their Own Good, Or Knowing It, Pursue."
> B. Franklin, Autobiography

Mr. Chairman and Members of the Subcommittee:

I appear before you stating the Administration's support of the principles proposed in Section 801 and Section 802 of Title VIII of S. 1860. Their passage would make more certain and improve the ability of Americans to protect their rights and the value of their intellectual property against foreign misappropriation and piracy -- and enhance our ability to compete and trade in the global economy. I will be addressing the trade aspects of this Title, and will defer to my colleagues on this panel on its non-trade aspects.

Two underlying premises of the attached Administration Intellectual Property Rights Policy Statement issued last month are:

(1) all countries' economic growth and international competitiveness can be enhanced by strong domestic intellectual property protection; and,

(2) if countries do not provide strong protection of intellectual property rights, and an effective system of international enforcement does not exist, then substantial distortions in international trade will result.

Unfortunately, many countries do not know their own good, or having it do not pursue it; and trade problems for U.S. producers have inevitably resulted.

Our economy has been for some time now inseparable from the global economy, and innovation and creativity are important elements of our continued competitiveness and exports. As you well know, piracy, misappropriation and infringement of U.S. intellectual property rights is a growing problem. Therefore, the President in his September 23, 1985 statement on trade policy highlighted the importance of improving international protection for intellectual property rights. The President directed USTR to initiate and accelerate both bilateral and multilateral negotiations with countries where the counterfeiting or piracy of U.S. goods has occurred. The Administration's statement on intellectual property protection issued on April 7, 1986, indicates to our trade partners as well as our citizens the importance this Administration attaches to improving protection abroad.

We support the concepts embodied in this bill because they represent an approach useful to improving intellectual property protection which is also consistent with our international obligations under the General Agreement on Tariffs and Trade.

There are other far less-valid approaches contained in bills before the Congress, for example S. 1822 and H.R. 4696 which would extend the manufacturing clause of the U.S. copyright law, that also purport to address deficiencies in foreign protection of U.S. intellectual property rights. However, S. 1822 would be detrimental to our objectives to improve intellectual property protection and would merely extend a protectionist and GATT-illegal barrier to trade, and therefore the Adminstration strongly opposes S. 1822. Its extension is very likely to result in retaliation by the European Community and other countries. It is also detrimental to the enhancement of foreign copyright protection because: (1) given the clause's GATT-illegality, it will weaken our efforts in the new round of trade negotiations to effectively deal with trade aspects of of intellectual property protection; (2) it undermines our efforts to join the Berne Convention; and (3) has resulted in threats by foreign countries not to apply improved copyright protection to U.S. works.

Section 801 of S. 1860 would improve the ability of U.S. intellectual property owners to obtain relief against unfair imports through Section 337 proceedings before the International Trade Commission. Section 802 addresses an anomaly in our law which prevents process patent owners from effectively enforcing their rights against products made abroad with the process.

I. THE PROBLEM

Over the past two years we have had an ever increasing number of complaints from our industries about the trade-related problems associated with inadequate intellectual property protection. Although this is a relatively new issue for the U.S. Trade Representative's Office, it has quickly become one of the most important. In fact, intellectual property protection is rapidly becoming one of the most critical trade and investment issues of this decade and beyond.

American competitiveness is increasingly dependent on our ability to enjoy the benefits of our technological innovations. This requires adequate and effective protection for patents, copyrights and trademarks. Unfortunately too many of our trading partners, both developed and developing countries, do not have adequate laws, or fail to enforce them. Thus, there is a need for vigorous efforts to increase the level of domestic and international protection.

For many countries, especially developing ones, the inadequacy of intellectual property protection often reflects these nations' misguided development strategies. In order to supplement the competitive edge of their products due to lower labor costs, they also adopt policies which attempt to make technology available within their economies at the lowest possible short-term price. Often this means tolerating the appropriation of foreigners' intellectual property rights, without compensation.

These policies cause three types of trade-related problems for Americans. First, U.S. companies can lose sales, royalties and the value of investment in the market where the American patent, trademark or copyright is appropriated without compensation. Second, our firms can lose sales in third markets, when unauthorized products are sold in third countries. Finally, and most relevant for the bill you are considering, U.S. companies may lose sales in our own country to imports involving unauthorized use of goods, works or processes patented under U.S. intellectual property laws.

II. Adminstration Actions

To counteract these problems the Administration has undertaken a number of initiatives -- some very recently in connection with the President's increased efforts in the area of international trade to deal with unfair trade practices and provide greater market access for U.S. goods, services and investment. These steps include multilateral initiatives aimed at developing a more effective international regime based on trade principles -- such as dispute settlement and enforcement -- and bilateral measures aimed at resolving specific existing trade problems.

Internationally, one of our priorities is completing work on the GATT anti-counterfeiting code. Stopping trade in counterfeit goods is important because they diminish the value of trademarks and a good business reputations, and they create special dangers of fraud and safety for consumers. The proposed Code is aimed at curtailing trade in goods bearing counterfeit trademarks. Basically we have reached agreement in principle with other developed countries in their work on the Code. But, quite frankly, completion of the Code has been held up by the strong objections of developing countries and the reluctance of some industrial nations to proceed without LDC participation. If the industrial nations could agree to sign and implement the Code, we would make great strides toward solving the counterfeit problem, since most counterfeit products are sold in these markets. We intend to press hard to secure agreement on the Anti-counterfeiting code as one element of intellectual property issues.

Although the Anti-counterfeiting Code will be an important tool for combatting piracy in third countries, we already have the authority to fight foreign trademark pirates in our market under our own laws. In 1984 the Congress enacted criminal penalties for counterfeiting and increased significantly the monetary damages which could be assessed on pirates. And quite recently the FBI in New York ran a "sting" operation to apprehend an Indonesian national planning to sell counterfeit music cassettes in the United States. That operation is likely to result in the first criminal prosecution under the new law. The principal value of the international code would be the benefit of agreed enforcement by other developed countries, which would reduce incentives to counterfeiters by denying them these prosperous markets.

The Adminstration is also seeking a program to improve international norms and secure effective protections in the critically-important copyright and patent areas. Among the most troublesome practices in the patent area are: compulsory licensing rules; non-patentability of many important classes of products such as pharmaceuticals and chemical compounds; and patent terms that are unreasonably short. We would also like to see improved international protection in important new areas such as semiconductor chip mask works and advances in biotechnology. In the copyright area, many nations still do not offer adequate and effective protection for traditional forms of expression (books, records, etc.) and newer forms, such as computer software. One act which this country needs to perform is to join the Berne Copyright Convention. This latter issue is receiving increased attention by the Administration.

To address trade aspects of intellectual property protection problems, the Administration is actively exploring with our trade partners the recommendations of the President's Advisory Committee on Trade Negotiations to negotiate a binding agreement or code in the GATT on intellectual property similar to the codes negotiated in the Tokyo round. Such a GATT code would supplement existing international conventions, including those administered by the World Intellectual Property Organization. Such an approach in addition to developing better international norms, would also seek improvements in such areas as dispute settlement and enforcement.

Complementing these efforts is a major program of bilateral consultations and negotiations. Over the past months we have held talks in Asia and Latin America, including Taiwan, Singapore, Korea and Mexico. We have also held a series of bilateral consultations with some thirty countries pursuant to the provisions on intellectual property in the Trade and Tariff Act of 1984. As you know, changes in the Generalized System of Preferences law contained in the 1984 Act direct the President to include treatment of intellectual property rights among the factors which are considered in our general review of continued eligibility for tariff concessions. We are optimistic that this review will provide an important incentive for developing countries to improve their treatment of intellectual property rights. We have held specific discussions on intellectual property issues in the context of the GSP General Review with such countries as Argentina, Chile, Colombia, Mexico, the Philippines and Yugoslavia.

The Administration is making use of U.S. trade laws to pursue improved protections for Americans and to fight international piracy. Last November, at the direction of the President, Ambassador Yeutter exercised the authority granted by Section 301 of the Trade and Tariff Act of 1984, and initiated an investigation of Korea's intellectual property laws. Korea has been a particular problem for counterfeiting, patent infringement and pirating of copyrighted works. Despite several rounds of consultations, there had been virtually no progress. Consequently the Administration felt that a Section 301 investigation was merited. And the Administration is prepared to initiate additional investigations under Section 301 when appropriate.

Over the past months we have been in close contact with representatives of U.S. industry to determine their intellectual property problems, and to seek their advice on appropriate solutions. These consultations began last year leading up to our preparation of the Congressionally-mandated report on non-tariff trade barriers. Over the past months we have also received valuable input from the Task Force on Intellectual Property of the President's Advisory Committee on Trade Negotiations. The Task Force has prepared two excellent papers making suggestions on bilateral and multilateral approaches to improving protection -- which we can make available to the Committee. We are now in the process of implementing many of their suggestions. Finally, to improve our ability to seek advice and communicate with the private sector we are creating a new Industry Functional Advisory Committee specifically on intellectual property. The members of the IFAC represent a diverse group of companies, all of which are concerned and affected by the treatment of intellectual property abroad.

III. TITLE VIII OF S.1860

The Administration is convinced that we would realize concrete trade benefits from improvements in protection similar to those embodied in Title VIII. In fact these provisions are in many ways similar to recent legislative initiatives of the Administration to improve intellectual property protection. In our opinion, innovative American industries should be rewarded for their efforts. These include such forefront industries as biotechnology, amorphous metals, solid state electronics, pharmaceuticals and optical fibers. For some of these industries the proposed process patent law changes are critical: for instance biotechnology developers depend almost exclusively on process patents for protection.

SECTION 801: UNFAIR PRACTICES IN IMPORT TRADE

Section 337 is a broad statute which applies to all forms of unfair trade practices involving intellectual property rights -- copyrights, trademarks, product patents, as well as process patents. In many cases Section 337 has proven to be an effective tool for preventing foreign piracy of U.S. intellectual property rights. Its advantages include: a fast track approach, an ITC decision is generally due within one year; and the remedies available are for many cases adequate -- it can issue an exclusion or cease and desist order -- although monetary damages to compensate for the losses incurred are not available.

But Section 337 has deficiencies which make it unnecessarily uncertain for U.S. intellectual property owners to obtain relief. There are circumstances in which the current Section 337 laws do not provide an adequate remedy. In large measure this is because the ITC may grant relief only if it is proven that the alleged infringer has engaged in unfair acts the effect or tendency of which is to substantially injure or destroy an industry efficiently and economically operated in the United States. It is the application of these provisions which are unnecessary, may prevent the protection of domestic intellectual property, and which Section 801 addresses.

The Administration's view is that it would be preferable that the language of Section 801 reflect a clear intention to eliminate both the industry and injury requirements from the current law. The current language is ambiguous. We think it should be modified to state clearly that the lawfulness of the enumerated acts -- and relief -- shall be determined without regard to whether they cause an injury to an industry.

There are a number of reasons why the Administration feels outright elimination of both the industry and injury test is desirable. The Administration supports elimination of the industry and injury test only as they apply to intellectual property cases under Section 337.

In our opinion the need to establish an efficiently and economically operating industry imposes a burden on U.S. intellectual property owners which makes it harder for them to enforce their rights. Part of the problem is due to the ITC having to deal with conflicting principles. A patent, trademark, or copyright enables its owner to prevent competitors from producing a like product. On the other hand, an industry is made up of a number of companies making like products. Trying to reconcile these concepts produces obvious difficulties. Consider what happens with a patent case, when it is brought to the ITC. To find an industry in a patent case the ITC must find that the activities described in the patent claim are carried out in the United States. The time, energy, and money of the patent owner, the respondent and the Commission are all expended to determine whether a real "efficiently and economically operated" industry exists.

In addition, the industry requirement prevents intellectual property owners such as universities and research institutions from using the ITC for enforcing their patents, copyrights and trademarks because they are not in business.

In the past the ITC has issued vague, and in some instances conflicting, guidelines on the requirement to prove an industry. In a recently decided case, Certain Softballs and Polyurethane Cores Therefore, Inv. No.337TA-190, USITC Pub. No.1751 (USITC, 1985), the Commission wrote that it "...does not adhere to any rigid formulas in determining the scope of the domestic industry, as it is not precisely defined in the statute, but will examine each case in light of the realities of the marketplace." (Emphasis added.)

I understand there are proponents of keeping the industry test in the law. Their principal argument is that without the test our proceedings could be used to enforce the rights of say a French company, with a valid patent in the United States, against infringing imports from a third country. This prospect does not disturb me very much. In fact, I hope that other countries will also develop laws to enable U.S. intellectual property owners to protect their foreign markets against exports from third countries which tolerate piracy. Other countries are not likely to amend their laws to help us when we restrict a very useful enforcement tool of our own.

Turning now to the principal change proposed in Section 801, establishing "injury" can also be uncertain and expensive. To prove injury the U.S. patent owner must not only show a loss of customers, sales, jobs and market share, but must also establish a link between the these losses and the unfair acts of the foreign company using his right without permission. This can prove a substantial requirement when the U.S. plaintiff is still making a profit, even if it is a very small one. In effect a U.S. owner of intellectual property has to meet a stronger test in getting relief from the ITC against infringing imports than against domestic infringers. I want to assure you that there is no intention by the Administration to affect the importation of genuine goods, only counterfeit ones.

I understand that some proponents of retaining the injury test have argued that its elimination would violate U.S. international obligations under the General Agreement on Tariffs and Trade. The 1982 report of the GATT Panel on United States Imorts of Certain Spring Assemblies concluded that the injury test was from the Panel's perspective "irrelevant". At Paragraph 72 the Panel noted:

> Another such element was the reference in subsection (a) of Section 337 to substantial injury to a United States industry which is efficiently and economically operated. The Panel recognized that this injury criterion could work to the advantage of a respondent in an ITC investigation, in that it represented an additional requirement to be satisfied by the complainant. However, in the Panel's view, it could reasonably be said that considering what were the essential elements in legislation dealing with patent based cases an injury criterion could only be considered irrelevant. (Emphasis added.)

The Office of the U.S. Trade Representative has reviewed the provisons which which would remove the industry and injury tests from the current law, and has concluded these changes do not give rise to GATT violations.

There are several other points where the Administration's bill and Section 801 of S. 1860 differ. We are prepared to work with the Congress to resolve these differences. For example, Section 801 would require the ITC to make determinations on whether to issue temporary orders within 90 days. The Adminstration feels that the statutory timing for ITC decisions should allow for an extra 45 days in especially complex cases.

SECTION 802: PROCESS PATENT AMENDMENTS

Because of an anomaly under current U.S. law, the use of a patented process outside the United States, and the succeeding importation of a product made through the process does not constitute an act of infringement. Under today's laws, U.S. process patent holders have two ways to protect themselves against imports made with the process without the patent owners' permission. These Americans can bring a case before the International Trade Commission under Section 337 of the Tariff Act of 1930, or they can apply for patents abroad and seek to enforce them in foreign courts. Both remedies have of shortcomings.

I have already addressed the specific measures which would make Section 337 a more effective tool in the context of the changes proposed in H.R. 3776. The other option, obtaining and enforcing patents in a number of foreign countries is expensive, sometimes unavailable, and may prove an empty victory since so many foreign countries do not effectively enforce their laws. We also believe that Section 802(e) should be altered to explicitly state that those now engaged in acts which these provisions will make unlawful will have to stop those actions immediately after enactment.

Section 802 would bring American practice into conformity with that of the other principal industrial nations. Section 802 would make it an infringement of a U.S. process patent to use or sell in the United States, or import into the United States a product made abroad using a process patented in the United States. Since a U.S. process patent owner can already prevent the use of his patent if the product of the process is produced domestically, the amendment's principal effect will be to redress any advantages now given to foreigners. Foreigners would not be precluded, under the legal remedies the Subcommittee is considering, from using the process if their products never entered U.S. commerce. But the bill will prevent circumvention of U.S. laws by allowing U.S. process patent owners to prevent importing into the U.S. of products made by his process without his permission.

The Office of the U.S. Trade Representative has examined Section 802, and we have concluded it's provisions are consistent with our obligations under the General Agreement on Tariffs and Trade. I know the Congress had considered a previous version of this bill which would have altered the law in such a way as to affect only imports made with a patented process. Such a formulation would have violated our GATT obligations if passed.

Section 802 of S. 1960 differs from the Administration's proposed amendments to the process patent laws in a couple of important ways.

Under the Administrations formulation the burden of proving that the patented process was not used in making the challenged import would shift to the importer once certain elements are established. The Administration believes that this would not place an unreasonable burden on the importer, since he is in a better position to establish whether or not the process was used, than the U.S. process patent holder.

To prevent possible abuse, the Administration proposal requires that before the burden of proof would shift to the importer, the American patent holder establish a substantial likelihood that the patented process was used, and, that after a reasonable effort to determine the actual process used, he was unable to do so.

The Administration's proposal also differs from Section 802 of S. 1860 in that we believe the statute should apply only to products directly produced by the patented process. We recognize there is a danger associated with this change: some products may enter the United States which contain an important component made with the patented process, while the final product was not. But the alternative, preventing a product from entering the U.S. because an infringing process was used in a very early stage of transformation of the final product, would in our opinion present an unreasonable barrier. In fact most of our major trading partners that have similar process patent rules also impose a requirement that the process be used directly in making the challenged product.

The Administration firmly supports amending our process patent laws for three reasons: without these changes, infringers are allowed to leap our borders and sell the products made with patented processes without the permission of the patent owner; second, under current law the patent owner's only remedy is through the ITC, and if he does not get relief from the Commission he is left without any remedy at all; and finally, even if the ITC does grant relief, he cannot recover damages under Section 337 for the losses he has sustained.

IV. CONCLUSION

In summary Mr. Chairman, the Administration supports the principles embodied in Sections 801 and 802 of S. 1860. We believe legislation along these lines would promote innovation in some of our most dynamic sectors, such as: pharmaceuticals; solid state electronics; new types of metals; and and industries making use of developments in biotechnology. Their adoption would bring U.S. laws into conformity with those of the other industrial nations. But most importantly, it would improve the protection available to Americans against the actions of foreigners which severely diminish the value of American's intellectual property rights.

ATTACHMENT

OFFICE OF THE
UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

ADMINISTRATION STATEMENT ON THE PROTECTION OF U.S. INTELLECTUAL PROPERTY RIGHTS ABROAD

April 7, 1986

GENERAL CONCERNS AND ISSUES

Inadequate recognition and protection of intellectual property rights abroad is a serious and growing problem. Foreign violations of U.S. intellectual property rights, through piracy, counterfeiting, misappropriation and infringement, severely distort international trade and deprive innovators, creators and inventors of rewards and opportunities that are rightfully theirs.

Intellectual property protection is critically important to the United States, our trading partners and the world economy.

* Adequate and effective protection fosters creativity and know-how, encouraging investment in research and development and in new facilities.

* Innovation stimulates economic growth, increases employment and improves the quality of life.

* Technological progress is a critical aspect of U.S. competitiveness as well as freer and fairer global trade.

* In developing countries, improved intellectual property protection can foster domestic technologies and attract needed foreign know-how and investment.

The Administration has pursued initiatives to encourage adequate and effective protection of intellectual property rights at home and abroad. The United States provides strong protection for intellectual property rights within our borders for domestic and foreign citizens and businesses. We expect other nations to do the same in the interest of stimulating increased innovation and improving living standards throughout the world. To achieve better protection, the Administration's program includes:

-- strengthening existing international and national standards for protection and enforcement;

- -- extending existing standards, or developing new ones, to cover frontier technologies;
- -- improving international standards to eliminate discrimination or unreasonable exceptions or pre-conditions to protection;
- -- encouraging our trading partners to commit themselves to enacting and enforcing laws adequately recognizing intellectual property rights and providing effective penalties for violations;
- -- ensuring that U.S. laws provide a high standard of protection.

PROBLEMS OF INTELLECTUAL PROPERTY PROTECTION ABROAD

All nations share a responsibility to recognize and protect intellectual property rights. The forms of protection that should be recognized include patents, copyrights, trademarks, trade-dress, industrial designs and trade secrets. Where needed, new forms of protection should be developed for frontier technologies.

Certain countries persistently fail to enforce laws adequately. Further, some countries have adopted policies that explicitly sanction abuse of intellectual property rights.

Practices that impose the greatest burden on U.S. commerce, and therefore most concern the Administration, include inadequacies in national laws. in enforcement and in international standards.

The absence or inadequacy of national laws

- A number of nations flagrantly disregard intellectual property rights. Some even encourage their nationals, through government policies, to appropriate foreign-owned technologies and creative and artistic works, without adequately compensating the inventor or creator.
- Some nations do not allow product-based patents in such areas as chemical compounds, pharmaceuticals and biotechnology. While they may provide process patent protection, it is often ineffective. Absent product patent protection, such process patents foster inefficiencies, since they encourage pirate companies to devote their research to finding often less efficient new ways of making old products, rather than creating new products.
- Many nations provide only limited copyright protection for works such as books, motion pictures, records and tapes. Their copyright laws do not cover many new and evolving

forms of authorship, such as computer software and satellite retransmissions. In some cases domestic laws do not even cover foreign works.

- * Many nations require that trademarks be used in commerce as a condition for maintaining ownership rights, despite the fact that the countries' trade policies make such use impractical or impossible.

Inadequate enforcement

- * Piracy thrives even in some countries that have nominally good laws. The causes are simple: inadequate penalties that have no meaningful deterrent effect and a lack of government commitment to enforcing the rights guaranteed by law. This problem is particularly acute for such industries as motion pictures, sound recordings and software. Such industries lose hundreds of millions of dollars annually to pirates whose actions, if not encouraged or condoned, are at least not adequately penalized by their governments.

Inadequate international standards:

- * The standards contained in some international conventions are too weak, especially in the patent area. A country can be in full compliance with international conventions even though it may not provide any protection whatsoever for entire classes of products, such as chemicals, pharmaceuticals and biotechnology. In addition, countries can grant patents for as little as five years and still meet the standards of current international conventions. Such unreasonably short patent terms do not provide the inventor an adequate opportunity to recoup research and development costs.

- * The value of intellectual property rights of U.S. nationals is also diminished by a variety of other practices perfectly in keeping with the international conventions. Among these are unreasonable working requirements and compulsory licensing policies that fail to provide prompt, adequate and effective compensation. Efforts in recent years to reopen the conventions to improve standards of protection have encountered concerted efforts by many nations to weaken standards even further.

- * Many new and still emerging technologies, such as semiconductor chips, software and biotechnologies, either are not explicitly covered or are discriminated against by international conventions, and they are constantly in danger of not being protected under national laws.

- Finally, the dispute settlement and enforcement mechanisms of existing conventions are ineffective.

THE ADMINISTRATION'S AGENDA

The Administration's strategy to pursue vigorously the strengthening of intellectual property protection involves using existing intellectual property conventions and organizations (for example the World Intellectual Property Organization), improving them by amplifying other international agreements to cover intellectual property concerns (for example, the General Agreement on Tariffs and Trade) and using bilateral and domestic policy instruments.

A. INTERNATIONAL INITIATIVES

Multilateral actions

The Administration will:

(1) seek to conclude, in the new GATT round of multilateral trade negotiations, an enforceable multilateral trade agreement against trade-distorting practices arising from inadequate national protection of intellectual property. We will examine and discuss with our trading partners the possibility of incorporating into such an agreement the guaranteed or minimum protections contained in existing international intellectual property conventions where they are adequate. Where the guaranteed or minimum protections are inadequate, we will seek to include provisions for greater protection. In this connection, we will seek to develop trade-based dispute settlement procedures that would draw on the trade expertise of the General Agreement on Tariffs and Trade and the intellectual property expertise of the World Intellectual Property Organization.

(2) work to resolve the persistent problems of counterfeiting by seeking the early adoption of a GATT Anti-Counterfeiting Code and to strengthen existing standards through the World Intellectual Property Organization.

(3) seek commitments by adherents to existing international intellectual property agreements to provide -- through trade-based agreements where appropriate -- adequate enforcement, transparency of governmental actions and regulations and a commitment not to use intellectual property laws to distort international trade.

(4) work for increased protection under the Paris Convention and vigorously pursue U.S. accession to the Berne Convention.

(5) improve protection for new and evolving technologies such as biotechnology and semiconductor-chip designs.

(6) oppose erosion of protection under existing international treaties and agreements.

(7) pursue greater adherence to agreements to reduce the burden and expense to U.S. intellectual property owners of filing for protection in a large number of countries.

(8) engage our trading partners in discussing the idea of establishing a multilateral or regional patent office. Such an office could provide a higher level of common patent protection, including coverage and terms, and establish a more efficient system for gaining patent protection beyond the U.S. borders.

Bilateral actions

The Administration will:

(1) pursue a vigorous program of bilateral negotiations and consultations to encourage development and enforcement of adequate and effective protection for U.S. intellectual property rights.

(2) work to ensure that intellectual property provisons of existing bilateral agreements are fully observed.

(3) make representations to countries where U.S. parties are injured because their intellectual property rights are not protected in accordance with international obligations.

(4) make vigorous use of the full array of U.S. trade and other laws to encourage other nations to provide timely, adequate and effective protection for intellectual property rights.

(5) expand existing programs of seminars and technical cooperation aimed at improving expertise and competence on technical intellectual property issues.

B. DOMESTIC INITIATIVES

The Administration will:

(1) work for enactment of the Administration's "Intellectual Property Rights Improvement Act of 1986 to strengthen and expand the protection of U.S. intellectual property rights.

(2) cooperate with private sector representatives to establish technical assistance programs to aid developing countries in implementing adequate protection for intellectual property.

STATEMENT OF JAMES MOORE, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Senator DANFORTH. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Mr. Chairman, I do have a statement that I would appreciate——

Senator DANFORTH. Don't even have to ask.

Mr. MOORE. Thank you.

Senator DANFORTH. All statements are automatically in the record.

Mr. MOORE. Thank you, Mr. Chairman.

The infringement of intellectual property is having an increasingly negative impact on U.S. business. As you will hear throughout the afternoon, U.S. industry estimates that the shortfall is around $20 billion annually and believes that three-quarters of a million U.S. jobs have been lost due to these violations of copyrights, trademarks, patents, trade secrets, and mask works.

Counterfeiting and piracy also result in health and safety concerns and a diminished reputation for U.S. goods.

At present, Indonesia does not have a patent law. In Korea, American authors have no copyright protection. In the area of patents, Brazil only safeguards the process of making a chemical compound. In Malaysia, penalties awarded are so small that even in the context of that country's income levels, infringers can simply regard them as costs of doing business.

The uncertain legal status of emerging technologies, such as computer software, semiconductor chips, and biotechnologies, also is a matter of great concern for all of us. For example, Japan only last year joined the international consensus that computer programs are protected by copyright. And other important countries such as Brazil remain undecided on the matter.

The Commerce Department has been working closely with other agencies for some time to develop innovative programs to confront the growth and the unauthorized use of U.S.-held patents, trademarks, and copyrights. Discussions with Taiwan and Korea were started in 1983, and talks with Singapore began in 1984. We now include the issue in most all of our bilateral discussions, such as talks that we have recently been holding with Mexico, Brazil, India, Indonesia, Thailand, Malaysia, Canada, and Japan.

The issue is raised annually with the Caribbean countries under the Caribbean Basin Initiative. We also are making sure that all beneficiaries of the Generalized System of Preferences know that we will be scrutinizing their protection of U.S.-held intellectual property rights in deciding benefits under the program. GSP has been a particularly useful tool to gain increased intellectual property protection because so many of the countries named as infringers also are the major beneficiaries of the program.

To supplement our bilateral consultations on intellectual property, the Commerce Department is holding training programs and educational seminars both here in the United States and on site in problem countries to stress the importance of strong protection and to provide the necessary skills to administer this protection. These programs have been held in Malaysia, Indonesia, and Thailand in just the past few months and are planned for other countries later this year.

The message is being heard loudly and clearly, I think, to our trading partners. For example, Taiwan recently amended its trademark law to provide up to 5-year imprisonment upon a conviction of product counterfeiting and passed a new copyright law just last summer that improves protection, including coverage for computer software. It also issued an Executive order on January 8 to provide for national treatment for U.S. works under its copyright law.

If countries do not make sufficient progress in upgrading protection for intellectual property, we will not hesitate to use all the leverage available to us. A section 301 case initiated against Korea last fall by the administration is a prime example of what we are prepared to do.

Multilaterally, the United States continues to work toward including intellectual property rights on the agenda of the new round.

But we cannot end there. Enactment of provisions similar to those in title 8 of Senate bill 1860 is critical to help strengthen protection for U.S.-held intellectual property rights.

On section 337, section 801 of S. 1860, we believe that the elimination of both the requirement of showing injury and the requirement of demonstrating the existence of an efficient domestic industry are necessary to make the provision a more effective method of protecting U.S. intellectual property rights. Eliminating these two requirements will bring section 337 in line with the infringement provisions of the U.S. patent, trademark, and copyright laws and allow those American intellectual property owners that are not considered domestic industries under section 337, such as universities, to use section 337 to protect their rights.

Some worry that the elimination of the domestic industry test would allow foreign companies to use section 337 to protect their U.S. intellectual property rights. This is actually a positive step because it will prompt other countries to develop such laws which would protect U.S. intellectual property owners from foreign infringement in their markets.

We are also concerned about a glitch in U.S. patent laws that allows the importation of products made abroad by processes patented in the United States without the permission of the patent owner. U.S. patent owners in this situation are dependent for protection on their ability to maintain a succuessful suit in the country where the process was actually used.

The only domestic remedy currently available is an order from the ITC barring the inport of an unfair trade practice under section 337. Section 802 of Senate bill 1860 will remedy this unfair situation. The administration's bill contains a proposal similar to section 802 to address inadequacies in U.S. protection for process patent holders.

We support section 803 of S. 1860, which will enable owners of patents on certain agricultural and chemical products, patents on methods of using or manufacturing them to obtain up to 5 years of additional patent life. This would compensate for some portion of the protection that was lost while the product underwent necessary regulatory review procedures. This proposal will help to restore the incentive for research and development that the patent system was designed to provide.

Although not a provision contained in S. 1860, another matter of crucial importance in the intellectual property area is the elimination of the manufacturing clause, a trade barrier that has been part of U.S. copyright law since 1891.

That clause which requires American authors to have certain works printed and bound in the United States or Canada in order to receive U.S. copyright protection is scheduled to expire this July 1, and the administration is vigorously opposed to the expansion of that law in any form.

The changes to U.S. intellectual property law proposed by legislation along the lines of S. 1890 would make a strong contribution to the administration's efforts to strengthen protection for U.S. holders of intellectual property rights. The administration has introduced a bill embracing many of the same changes, although with some differences. They will considerably improve the chances of innovators to protect their rights in the U.S. market and encourage greater creativity in such fields as pharmaceutical development and biotechnology.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you all very much.

[The prepared written statement of Mr. Moore follows:]

Remarks by

James P. Moore, Jr.

Deputy Assistant Secretary
for International Economic Policy
International Trade Administration
Department of Commerce

Before the

Senate Finance Committee

1:30 p.m.

Wednesday, May 14, 1986

I am pleased to speak to you today on Title VIII of S. 1860. The Administration is committed to strengthening protection for intellectual property by making it easier for businesses to defend their rights under U.S. law. In particular they will streamline Section 337, close a loophole in U.S. patent law now enjoyed by foreign manufacturers, and compensate makers of certain agricultural and chemical products for time lost in complicated but necessary premarketing checks.

It is no secret that the U.S. is running sustained current account and trade deficits. U.S. industry is facing severe competition across the board, in high and low technology sectors, services and agriculture. A major objective of the Administration is to reduce these deficits by seeking a fairer trading system. We can make progress by strengthening U.S. intellectual property laws, the subject of today's hearing.

The Problem

The infringement of intellectual property is having an increasingly negative impact on U.S. business. Illegally traded goods are displacing U.S. production in domestic and foreign markets. While lost sales due to the problem are difficult to pinpoint, U.S. industry estimates the shortfall at about $20 billion annually. 750,000 jobs are believed to have been eliminated as a result of infringing goods, many of them in import-sensitive industries such as textiles, footwear, wearing apparel, and automotive parts production. Counterfeiting and piracy also result in health and safety concerns and a diminished reputation for U.S. goods. In late 1984 G.D. Searle, one of our nation's leading pharmaceutical companies, discovered that more than one million counterfeits of their birth control pills had found their way into the U.S. market. There also have been a number of reports of counterfeit bolts intended for use on airplane wings. These counterfeit bolts have lower tensile strength and are more likely to break under severe stress than the genuine products. There are similar problems with automobile and truck parts.

Counterfeiting has grown dramatically in recent years. In the case of some U.S. products, pirates now sell almost as many unauthorized copies as the U.S. manufacturer sells of the real article. The principal sources of pirated goods -- newly industrialized countries such as Taiwan, Korea, Mexico and Brazil -- have increasingly become international trade competitors. At the same time, effective protection of intellectual property rights in these countries lags far behind that provided in developed countries.

U.S. business complains that some nations have yet to pass laws to protect intellectual property or that laws in place do not apply to U.S. nationals. Also, these laws may not provide very strong protection, particularly for chemical and pharmaceutical compounds, and may allow pirates to get away with paying a very small fine.

For instance, Indonesia does not have a patent law. In Korea and Indonesia, American authors have no copyright protection because these countries neither belong to an international copyright convention nor have bilateral copyright relations with the United States. Korea and Brazil, among others, only safeguard the process of making a chemical compound, not the resulting compound. These process patents are easy to get around because slight changes in the process most often do not significantly change the resulting compound. In Malaysia, penalties awarded are so small, even in the context of income levels, that infringers can simply regard them as costs of doing business.

Even if adequate laws and penalties are in place, their enforcement most often is ineffective. U.S. businessmen tell us that in Indonesia bringing a case before the local judicial system can be a waste of time and money.

The uncertain legal status of emerging technologies, such as computer software, semiconductor chips and biotechnologies, also is a matter of great concern for the U.S. For example, Japan only last year joined the international consensus that computer programs are protected by copyright and other important countries, such as Brazil, remain undecided on the matter.

Underlying all of these problems is the belief in many developing and newly industrialized countries that economic development will be hindered and infant industries endangered if counterfeiting is curbed. It has been said that the theft of foreign intellectual property is at the root of national industrial policies designed to provide a "short cut" to modernization.

New Administration Program

Intellectual property has emerged as a top trade policy priority for the Administration. On April 7 Secretary Baldrige, Ambassador Yeutter and Attorney General Meese announced a comprehensive program to address the growing problem of product counterfeiting and piracy at home and abroad. The President hinted at this program in his September Trade Action Plan and in his State of the Union Address.

The Administration's program calls for stepped up bilateral discussions with the major infringer countries, work to have intellectual property included in a new round of trade negotiations, and a legislative package to address inadequacies in U.S. laws, the "Intellectual Property Rights Improvement Act of 1986," forwarded to Congress on May 5.

The Administration's program is outlined in the "Administration Statement on the Protection for U.S. Intellectual Property Rights Abroad," also announced April 7. It was recommended by the President's Trade Strike Force, an interagency task force established by the President last September and headed by Secretary Baldrige, to uncover and recommend actions to counter unfair foreign trading practices. The program builds on past successes of the Commerce Department and other agencies and looks to future challenges in our work to strengthen national laws and international standards in this increasingly important trade area.

Bilateral Efforts and Successes

The Commerce Department, through two of its primary agencies, the International Trade Administration and the Patent and Trademark Office, has been working closely with other agencies for some time to develop innovative programs to confront the growth in the unauthorized use of U.S. patents, trademarks and copyrights. ITA and PTO are uniquely qualified to tackle the problem because they combine trade expertise with technical and legal know-how.

The greatest progress has come from our bilateral activities. Discussions with Taiwan and Korea, often named as the principal problem countries, were started in 1983 and talks with Singapore, another trouble spot, began in 1984. We now include the issue in most bilateral discussions, such as talks recently held with Mexico, Brazil, India, Indonesia, Thailand, Malaysia, Canada and Japan.

The issue is raised annually with Caribbean countries under the Caribbean Basin Initiative. To satisfy the eligibility criteria of the program, the 21 beneficiaries must adequately protect the intellectual property rights of foreign nationals. They must also prohibit the broadcast of U.S. copyrighted material without the consent of the owner.

In addition, we are making sure that all beneficiaries of the Generalized System of Preferences (GSP) know that we will be looking at how adequately they protect U.S.-held intellectual property rights in deciding benefits under this program.

Bilateral discussions with GSP beneficiary countries are now taking place. The President must make an announcement about GSP benefits before next January.

GSP is an especially useful tool to gain increased intellectual property protection because many of the countries named as infringers also are the major beneficiaries of the program. For instance, Taiwan is the principal beneficiary with 24 percent of the total and Korea is second with 12 percent.

To supplement bilateral consultations on the issue, the Commerce Department is holding training programs and educational seminars both in the United States and on-site in problem countries to stress the importance of strong protection and to provide the necessary skills to administer this protection.

ITA and PTO conducted seminars on copyright issues for government and private sector experts in Malaysia, Indonesia and Thailand in January 1985. A follow-up program on all intellectual property issues (patent, trademark and copyright) was held in Indonesia in February 1986 and similar programs will be held in other problem countries later this year. PTO also has held two training programs on patent law and administration for government representatives from developing countries.

The message is getting across to our trading partners:

- Japan last spring decided to extend full copyright protection to computer software rather than choosing a much weaker form of protection which would have set a dangerous precedent for other countries.

- Taiwan recently amended its trademark law to provide up to five years' imprisonment upon a conviction of product counterfeiting and passed a new copyright law last summer that improves protection, including coverage for computer software. Taiwan issued an executive order on January 8 that provides national treatment for U.S. works under its copyright law.

- Singapore is considering a new copyright law, based on Australia's, that provides for significantly increased penalties for infringement (a $23,000 fine per article infringing a copyright, up to a maximum of $200,000 and a maximum five-year jail term for a first offense).

- Malaysia also is considering a new copyright law that would provide protection for computer software and increase penalties for copyright infringement.

Our determination to conquer this problem is demonstrated by our willingness to use the new tools at our disposal. The Trade and Tariff Act of 1984 made it clear that Section 301 now covers intellectual property related trade practices. The Administration already has taken advantage of this change by initiating a Section 301 case against Korea for inadequate protection for intellectual property rights. The 301 talks with Korea are progressing and we are optimistic that the major shortcomings in Korea's intellectual property laws, such as the lack of copyright protection for foreign works and the lack of compound protection for chemicals and pharmaceuticals under Korea's patent law, can be resolved. We will not hesitate to use 301 again if other countries refuse to lift intellectual property related trade barriers.

Multilateral

On the multilateral front, the U.S. continues to work towards inclusion of intellectual property rights issues on the agenda of a new round of trade negotiations. In this effort we are especially encouraged that the President secured agreement at the Tokyo Summit for including intellectual property in the new round.

We would like countries participating in the new round to quickly adopt a code to address the growing problem of trademark counterfeiting, which has been under consideration since the end of the Tokyo Round. This could mark an important first step toward negotiating a comprehensive agreement on intellectual property rights under the General Agreement on Tariffs and Trade covering all forms of protection.

The more active involvement of GATT in intellectual property should help to clean up several practices acceptable under existing international agreements that have significant negative effects on U.S. business operations. These include: unreasonably short patent terms (often not long enough to recoup expensive research and development costs); the unpatentability of such commercially important classes of goods as chemical and pharmaceutical compounds; and unreasonable compulsory licensing regulations (especially for patents). The GATT also will improve the international outlook for strengthening intellectual property protection by supplying a much needed dispute settlement mechanism.

In developing our work program on intellectual property for the new round we are relying heavily on the expertise and practical experience of representatives from those U.S. industries most affected by inadequate protection. We are creating an Industry Functional Advisory Committee made up of these U.S. industry representatives to streamline this information-sharing process as our need for advice increases with the demands of the new round.

Title VIII of S. 1860

In order to improve the competitiveness of U.S. industry we cannot only work at having others improve their laws and at upgrading international standards. Domestic protection for intellectual property must also be strengthened. That is why the enactment of proposals similar to those included under Title VIII of S. 1860 is so critical. Our commitment to these proposals is demonstrated by the introduction of the Administration's own bill, which includes proposals similar to three of the provisions in S. 1860 -- those relating to Section 337, protection for process patents and patent term restoration for agricultural chemicals.

The Administration bill includes three other provisions which we view as equally critical. These would:

- improve a patentee's ability to develop innovative arrangements with potential licensees by making it clear that certain licensing practices cannot render a patent unenforceable on the ground that it has been "misused" unless the practice also violates the antitrust laws.

- make it clear that licensing arrangements challenged under the antitrust laws must be judged by their competitive effects; and

- clarify the rights of patent licensors and licensees with respect to royalty payments in disputes over the patent's validity.

We hope that the appropriate Congressional committees will realize the positive contribution these changes will make towards strengthening intellectual property protection and that they will act favorably on these provisions.

Section 801: Unfair Practices in Import Trade

Mr. Bale from USTR has already testified on the Administration's bill relating to Section 337 and how it differs from Section 801 of S. 1860 in several respects. Therefore, I will just take a few minutes to emphasize some of the points he raised and mention several other differences.

Currently under Section 337, in order for the importation of an article that infringes a valid copyright, patent or trademark to constitute an unfair trade practice, a petitioner must show that there is an efficient domestic industry, the "industry test", and that it has been injured, the "injury test". The Administration's bill proposes to eliminate both of these tests in Section 337 cases based on intellectual property rights. Section 801 of S. 1860 is ambiguous.

In our opinion it is important to clearly remove both tests. The elimination of both these requirements will make Section 337 a more effective method of protecting U.S. intellectual property rights. It will bring Section 337 in line with the infringement provisions of the U.S. patent, trademark and copyright laws and allow those American intellectual property owners that are not domestic "industries", such as universities, accounting firms, and research and development institutions, the opportunity to use Section 337 to protect their rights.

The elimination of the domestic industry test would allow foreign companies the opportunity to use Section 337 to protect their U.S. intellectual property rights. While at first glance this may appear worrisome, it should actually improve the situation for U.S. holders of intellectual property. By strengthening enforcement of the U.S. intellectual property rights of foreign nationals, the United States may cause other countries to develop laws which will better protect U.S. intellectual property owners from foreign infringement in other markets. Past U.S. enactment of legislation giving stronger protection to intellectual property rights (for example, copyright protection for computer software and the recently enacted Semiconductor Chip Protection Act) has spurred other countries to enact laws better protecting intellectual property, thereby benefitting U.S. industry.

Two further differences between S. 1860 and the Administration's bill should be noted. The Administration's bill reflects the principle now embodied in Section 337 that all federally registered trademark owners be treated equally. S. 1860 would require some trademark owners to show injury in order to assert their rights before the International Trade Commission while other trademark owners would not have to show injury. Playing favorites among classes of trademark owners is inconsistent with the Administration's position.

S. 1860 also provides for forfeiture of articles imported in violation of Section 337. Our preference is not to add a forfeiture provision. The remedies in 337 should not go signficiantly beyond what is already afforded in intellectual property law. Patent law, the primary kind of infringement for which 337 is used, does not provide for forfeiture.

Section 802: Process Patent Amendments

A particularly poignant example of unfair trade is that which occurs when the owner of a U.S. process patent discovers that somebody has used his or her process abroad to manufacture products that were subsequently shipped to the United States. The sad fact is that due to a glitch in current U.S. patent law, no "infringement" has occurred because the use of the process occurred abroad. These patentees are dependent for protection on their ability to maintain a successful suit in the country where the process was used. This is certainly an expensive proposition if not a pointless one since enforcement of intellectual property laws in many other countries is woefully inadequate.

The only domestic remedy currently available is an order from the International Trade Commission barring the import as an unfair trade practice under Section 337. This affords the patentee no monetary damages for goods already sold. Section 802 will remedy this unfair situation by allowing the process patentee to sue for patent infringement in federal district courts in such cases in addition to a Section 337 administrative proceeding.

The Administration supports moves to correct this anomaly in U.S. patent law. In fact the Administration's bill also contains a proposal to address inadequacies in U.S. protection for process patent holders. Our proposal is similar to that contained in Section 802, with some differences.

The Administration proposal establishes a rebuttable presumption that goods that could have been made using a certain process were in fact made by using it. To take advantage of this provision, the patentee would have to show that there was a substantial likelihood that the goods were manufactured using the process and that he made a good faith effort to find out precisely what process was used.

This approach is fair to innocent importers as well as to patentees. The patentee gets no presumption unless he has overcome these difficult hurdles. Once he has satisfied them, the burden of proof proof shifts to the importer who is in a much better position to provide the facts about how the product was really made.

Another difference between the Administration proposal and Section 802 is that our provision would apply only to products directly made by the patented process. The Administration's provision would act as less of a trade barrier than Section 802 because it exempts those products where an infringing process was used early in production but was not used in the final stages. The Administration proposal also has a different approach to the grandfather issue addressed in Section 802(e).

The Administration's proposal would align U.S. patent law with that of most of our major trading partners, while closing the loophole that allows foreign manufacturers to avoid liability for damages under U.S. law.

Section 803: Agricultural Patent Reform

In some cases our laws, seeking to protect perfectly valid social interests, have placed unnecessary restrictions on the ability of an inventor to derive the full benefit of an invention. When they do this, they can discourage research and development and slow the introduction of new technology just as effectively as piracy.

Products which may be harmful to the public cannot, and should not, be marketed until they have been reviewed by proper authorities. Nevertheless, we have to recognize that this reduces the patent life and makes it harder for innovators to recoup their substantial investments when the product is finally approved. The interests of the patent owner and the general public can be accommodated.

Section 803 will enable owners of patents on certain agricultural and chemical products, such as animal drugs or pesticides, or patents on methods of using or manufacturing any of them to obtain up to five years of additional patent life to compensate for some portion of the patent life that was lost while the product underwent these regulatory review procedures. This proposal will help to restore the incentive for research and development that the patent system was designed to provide. This should stimulate the introduction of new agricultural and chemical products and methods of making or using them. This proposal has the support of the Administration and also is included in our bill.

Additional Legislative Concern

Although not a provision contained in S. 1860, another matter of crucial importance in the intellectual property area is the elimination of the manufacturing clause, a trade barrier that has been part of U.S. copyright law since 1891. The clause, which requires American authors to have certain works printed and bound in the United States or Canada in order to receive U.S. copyright protection, is scheduled to expire on July 1.

The Administration is vigorously opposed to extension of the clause in any form. In 1984 the GATT Council ruled that the clause violates our international obligations, giving member countries the authority to retaliate against U.S. exports. The EC has already targetted U.S. paper, chemical, tobacco and industrial machinery for damages in the range of $300 million to $500 million, and other GATT members are expected to follow suit.

In addition to harming American exporters and workers, the clause is (1) not needed by the U.S. printing industry, since careful studies show no long-term economy-wide job losses; (2) undermines the U.S. position in opposing unfair and discriminatory trade practices by foreign countries towards U.S. intellectual property holders; (3) seriously undercuts our goal in strengthening the GATT dispute settlement mechanism and bringing intellectual property matters into the new GATT round; and (4) impedes our efforts to adhere to the Berne Convention, which prohibits conditioning a copyright on "formalities".

As we work to establish a stricter international regimen for intellectual property, we must recognize that our own laws currently contain indefensible barriers and we must move quickly to do away with them. We must be able to face the world community in the new round with the the strongest possible position. If, Mr. Chairman, we fail to eliminate our own shortcomings in the intellectual property area, we increasingly will impair our ability to make progress on this issue internationally.

Conclusion

The changes to U.S. intellectual property law proposed by legislation along the lines of S. 1860 would make a strong contribution to Administration efforts to strengthen protection for U.S. holders of intellectual property rights. The Administration has introduced a bill embracing these same changes, although with some differences. They will considerably improve the chances of innovators to protect their rights in the U.S. market and encourage greater creativity in such fields as pharmaceutical development and biotechnology.

Senator DANFORTH. Is it your opinion that this provision would be GATT legal?

Dr. BALE. The 337?

Senator DANFORTH. Yes.

Dr. BALE. Yes, it would be.

Senator DANFORTH. Mr. Moore, you nod your head in agreement?

Mr. MOORE. I do, sir.

Senator DANFORTH. Do you have an opinion?

Chairwoman STERN. I would like to reserve a response because we do have questions about the GATT legality. And if I could elaborate on it in a followup, I would like to.

Senator DANFORTH. Fine.

Chairwoman STERN. I think it is an important concern.

Senator DANFORTH. Fine.

If this were enacted, do you think that the role of the ITC would be superfluous with respect to 337 cases? And do you think that it could be fairly usefully supplanted by the courts?

Chairwoman STERN. Well, I think logically it would make sense for the courts to do this entirely. But as it is written now, the ITC would very much have a role. In effect, we would have a competing role with the courts. And you could find a situation where you would have forum shopping. If you would get a decision from us which might be different from what you get in the courts, and if you lost with us, you would go to the court and vice versa. So I think it would certainly have redundancy if not superfluousness.

Senator DANFORTH. Do you think, therefore, that if we were to pass this section that we should put it in the courts and remove it from the ITC?

Chairwoman STERN. I think that is the logical conclusion. It no longer becomes a trade statute. It becomes a purely intellectual property protection statute, and that is an important objective. And the courts have that responsibility now.

Senator DANFORTH. Do you have an opinion on this, Mr. Bale?

Dr. BALE. Well, I think you have to distinguish between the injury test and the industry test. I think the injury test has implications both domestically and internationally.

Senator DANFORTH. I am saying if we enact this provision and repeal the test then is it still an ITC matter or should it be a matter that would be enforced in court?

Dr. BALE. If you repeal both, there is a legitimate question. If you repeal only the injury test, I think it is arguable it is still an ITC matter.

Senator DANFORTH. Mr. Moore, what is your opinion?

Mr. MOORE. Mr. Chairman, I believe, quite frankly, the workload of the ITC would increase as a result of all this, and both with the injury and with the industry tests eliminated.

Senator DANFORTH. How so?

Mr. MOORE. It would not be superfluous.

Senator DANFORTH. How would it possibly be increased?

Mr. MOORE. By virtue of the fact that by giving greater protection in terms of intellectual property rights that the cases themselves would become more prevalent.

Senator DANFORTH. Yes. But the question is: Why not let this be enforced in court rather than before the ITC, since the traditional function of the ITC wouldn't exist anymore in a section 337 case?

Mr. MOORE. I understand. But the only point I am making, Mr. Chairman, is the fact that by increasing the workload that certainly a petitioner would have the option of both the courts and the ITC.

Senator DANFORTH. Why let them do that?

Mr. MOORE. Beg your pardon?

Senator DANFORTH. Why let them do that? I mean all you have said is that if you leave a shell of ITC function and it is still in tact, people will use it. But I am talking about a matter of policy. If we were to repeal these tests what would be the appropriate role for the ITC? Why couldn't this role be performed just as well by the court? Are you in basic agreement?

Mr. MOORE. Yes, sir.

Senator DANFORTH. What fraction, roughly, Madam Chairman, of the workload of the ITC is consumed by 377 cases?

Chairwoman STERN. Well, Art Weinberger, who is sitting behind me, would tell you that it is 100 percent. But we have had about—since 1974 when the law was changed substantially, we have had, I think, 208 cases involving patents, trademarks, cut register trademarks, copyright infringements, and in total 240 investigations.

Our caseload has been pretty much steady at about 30 a year, Art? Forty a year for the last couple of years. We have increased our administrative law judges to deal with the problem. While the numbers have stayed, as I said, rather steady, it has becoming increasingly complex. These patent cases are very complex. And I think you should know that even if you took out the injury and industry criteria with all the policy confusion which would entail, it would not eliminate our workload. We would continue because of this forum shopping to get more cases.

Senator DANFORTH. All I am saying is let us suppose that we were to enact—I don't think I phrased my question clearly.

Chairwoman STERN. Would it reduce our workload?

Senator DANFORTH. If we decide that as a matter of policy the injury test and the industry test don't make any sense and that they should be repealed, then should we take a further step and say, therefore, this is no longer appropriate subject matter for the ITC and it should be placed in the courts, thereby foreclosing the forum shopping and making clear that the case could not be brought in the ITC but could only be brought in the court?

Chairwoman STERN. It would remove a chunk of about 40 cases a year.

Senator DANFORTH. Would that be as a percent of your total workload, would you say?

Chairwoman STERN. Well, it——

Senator DANFORTH. I mean would it be a major development——

Chairwoman STERN. No.

Senator DANFORTH [continuing]. In the ITC or would it——

Chairwoman STERN. Oh, I—yes.

Senator DANFORTH [continuing]. Be 5 percent of your workload, 95 percent?

Chairwoman STERN. No, no. I would say about a quarter.

Senator **Danforth**. Quarter?

Chairwoman **Stern**. Yes, sir.

But I just want to let you know just for the record that if you took out the criteria and kept it at the ITC, not only would you have these forum shopping problems, which you understand very clearly, but it would not help us in terms of our workload because most of our man hours and women hours go into the patent issues, which still would remain.

Senator **Danforth**. I still don't think I made it clear what my question was.

Chairwoman **Stern**. No, I understand your question. We would have a quarter of our cases and our workload, I would say, removed.

I would like to go back and look at the exact figures because we have about—we have about 300 cases a year, but the patent is just much more complicated so it takes more man hours.

Senator **Danforth**. My understanding of the position of all panelists is that if the tests were removed as a matter of policy, then it would make sense for Congress to go the further step and tell people that if they wanted relief under 337 they should proceed in court rather than before the ITC. That is my understanding of the testimonies. Am I wrong on that?

Dr. **Bale**. I disagree slightly, Mr. Chairman.

Senator **Danforth**. Tell me what your view is.

Dr. **Bale**. My view is that there is still a potential role for the ITC. And I don't think it is conclusive that if you take the industry and injury test out that the ITC is not the forum in which to review the cases.

Senator **Danforth**. All right.

Dr. **Bale**. That in particular with the proposals such as they are formulated in a couple of bills that I have seen in the Congress, and S. 1860 is a bit vague on this because it is unclear whether the industry test is being taken out or not—but, particularly, if you retain the industry test, there is a clear ITC role. And that is probably, I would imagine, the main threat to Commissioner Stern, who is concerned about increased workload under the modification.

Senator **Danforth**. You are saying that if these various tests are repealed, then there still is a role, should be a role, for the ITC?

Dr. **Bale**. I would say there could be because you have a time limitation on the ITC proceedings that you do not have in courts. The court proceedings can take 3 to 4 to 5 years as opposed to an ITC proceeding which takes 1 year.

And if one is interested in rapid exclusion orders to deal with the problem and the problem is primarily imports as opposed to—well, in the courts, of course, one can go after the damages except in the case of processed patents which is why you are considering that proposal.

Senator **Danforth**. I want to make clear that I haven't really thought it out. And I am certainly not suggesting removing huge chunks of the workload from the ITC out of dissatisfaction with the ITC. Quite the contrary. As you know, just recently as yesterday I stated my confidence in the ITC. I am just sort of thinking out loud that if we really are changing the rules, does it make sense for the ITC to retain a role in 337 cases?

Chairwoman **Stern**. Senator Danforth, I want you to know that I am not here in order to protect turf.

Senator **Danforth**. Oh, I haven't said that.

Chairwoman **Stern**. And I know. I am really concerned about the trade implications of this proposal. And I think you could, if you wanted—the logical conclusion is that you could just attach our administrative law judges over to the Customs Service, if you wanted to make things faster in these revised 337 procedures. That might be a logical conclusion.

The ITC's genius, which is to see whether an industry is being hurt by imports, is no longer there. We would become just referees between importers.

Senator **Danforth**. But it really should be a policy question. My own view is that—and I am a cosponsor of the bill—if counterfeited material is being shipped into the United States it should be very easy to get relief. I view that as really a per se type violation of fundamental standards of how we want to do business in this country, and that it should not be a lengthy process of trying to prove whether you are injured and whether your industry is operating efficiently and whether your industry is impacted.

It seems to me if you have basic standing to pursue a claim, you should be able to pursue the claim and get relief in a very simple fashion.

Chairwoman **Stern**. Of course, you have that in both the Customs procedures now. They can seize goods right at the border. And we also have provisions for temporary relief and also for defaulting parties. And I think in the long statement that I gave you there are ways to make sure that our procedures, as they exist now, are better interpreted by our administrative law judges to get even greater speed. And I think that there is flexibility in the existing statute to achieve that speed.

Senator **Danforth**. Senator Baucus.

Senator **Baucus**. Thank you, Mr. Chairman.

I am, frankly, trying to understand what section 337 should or should not provide. I am also trying to determine the degree to which different remedies should be available in different forums. Could you please, all three of you, tell me your views on what remedies should be available and in which forum? Generally, just as a matter of policy. To what degree should exclusion orders, cease and desist orders, damages, forfeitures be available in the Federal district court for violations of intellectual property rights? To what degree should they be available before the ITC in general?

Dr. **Bale**. Senator, I guess they point at me to just take a crack. Paula is very happy with the way things are so she is not anxious to speak up on this issue, perhaps.

From our point of view, the courts serve a major role in the area of damage claims. This is one of the chief deficiencies of the current patent law that it doesn't cover processed patents and allow processed patent owners to take care of imports—imported products. It may violate——

Senator **Baucus**. You think the courts are better suited to provide for damages?

Dr. **Bale** [continuing]. Damages.

The exclusion order gets at the issue of what do you do with products that are coming in now damaging the industry and you need to act quickly, whether through a temporary exclusion order or through a final disposition of this case. That is an ITC issue.

Senator **Baucus**. That should be, and that should remain an ITC issue.

Dr. **Bale**. Well, it is an import action so the ITC is in a good position, we believe, to make a determination as to whether or not imports should be blocked and to what extent they should be.

That, basically, is the distinction in my mind. And I think this generally reflects the view of the administration. One of the keys to this issue is the impediment that now exists in getting such an exclusion order, leaving aside the question of damages, in the injury test, which can be a very costly and uncertain element in this.

Senator **Baucus**. Maybe I am approaching this backward. Let us get just to remedies first and then we will discuss standards.

You think that damages should be available only in the Federal district courts?

Dr. **Bale**. That is right.

Senator **Baucus**. Why should that be a Federal district court action and not a remedy that is available in the ITC?

Dr. **Bale**. Well, because you are going well beyond the question of whether or not a patent is infringed and whether imports should be blocked to relieve the industry. You are getting into questions of damage and material damage and the amount of funds that should be——

Senator **Baucus**. Are you saying courts are better suited to determine whether there is a violation and the degree of damages?

Dr. **Bale**. Well, I think it is a question of the damages rather than the violation. The ITC makes the determination on the extended infringement itself with regard to these products that are imported.

Senator **Baucus**. Why do think the ITC is better suited to provide for an exclusion order?

Dr. **Bale**. Because we are dealing with imports.

Senator **Baucus**. All right. Why is the ITC better suited? Even though you are dealing with imports, why? What is the public policy rationale behind that?

Dr. **Bale**. They are independently commissioned, specifically designed to adjudicate these types of activities.

Senator **Baucus**. Do any of you have any other points you want to make?

Chairwoman **Stern**. Senator Baucus, the ITC has in rem power so it cannot award damages as the courts can. But with the courts, there is a question whether it can reach foreigners. And that power has been given to the ITC. And that is the reason why we can issue, have the power to issue, cease and desist orders not only against domestic respondents but against foreign respondents, though it is hard to reach them.

And, also, that is why we have the power to exclude goods at every port throughout the country instead of having to go to different courts.

Senator BAUCUS. Is there is a need for an additional remedy of forfeiture or not?

Chairwoman STERN. I would like to think about it and come back to you on the record on that. I have not considered the possibility of expanding our powers to forfeiture. If I may, I would like to come back with you on that answer.

Senator BAUCUS. Mr. Moore?

Mr. MOORE. Senator, I think the shopping around remains in the petitioner's discretion. If it was a matter of damages, he would look toward the courts. If it was a matter of timeliness and if there was a concern about exclusion, that would be taken up with the ITC. And I think that is how this——

Senator BAUCUS. What if there is both a need for timely relief from imports and significant damage?

Mr. MOORE. The petitioner is going to have——

Senator BAUCUS. Sorry?

Mr. MOORE. The petitioner is going to have a tough decision to make.

Senator BAUCUS. Are they exclusive remedies?

Mr. MOORE. Exclusive from one another?

Senator BAUCUS. Yes.

Mr. MOORE. I would have to seriously consider that. I am not quite sure.

Senator BAUCUS. Should they be mutually exclusive in your view?

Mr. MOORE. Again, Senator, I am not quite sure. I would have to think that through.

Senator BAUCUS. What about the degree to which you feel we should eliminate both the injury and the industry tests? I understand the administration wants both those tests eliminated. This would allow the intellectual property rights of other countries to be protected in this country. Is that the basic rationale for advocating elimination of both the industry and the injury test in 337?

Dr. BALE. Yes, Mr. Senator. The reason for—and, again, a position like this is a matter of discussion amongst various agencies and the administration with a number of different perspectives on the issue. We come at it as a trade agency with a trade position which looks primarily at the question of the injury test. But other agencies—and we all have an interest in this in any case. From an intellectual property perspective and legal perspective, have an interest in generally providing a stronger international framework for intellectual property protection.

By eliminating that industry test, you provide for more potential protection in the United States, such institutions that may not have yet established an industry or are just about to establish an industry. But you also do admittedly provide additional protection for those abroad, which I know some feel is a drawback.

But if in doing that you can also encourage other countries to enact similar legislation which would allow our industries in the United States to pursue vigorously intellectual property protection remedies in foreign countries, without regard to their having an industry there but simply have a patent there or a copyright, we think that that is worthwhile.

That is the perspective that the administration has taken in developing a position that the industry test as well as the injury test should be eliminated.

Senator **Baucus**. I am sorry if I am redundant, but could you answer the question whether eliminating the economic tests would change the nature of the ITC to more of a patent court? Is that a concern or is that not a legitimate concern?

Dr. **Bale**. It is certainly—certainly, it runs the risk of adding to the caseload of the ITC because you are expanding the scope of eligible petitioners for 337 relief. Does that bother us? It is certainly a matter that has been given consideration, but it is not a concern that overrides, in our view, the general desire to enhance intellectual property protection in which we have a major stake.

Chairwoman **Stern**. Senator Baucus, if I might answer.

Senator **Baucus**. Yes.

Chairwoman **Stern**. I am glad to see that it is recognized that it will expand the scope of those who are eligible to come to the ITC for refereeing and arbitrating. But I have to state, again, the protection—and this is a trade statute, and we are here to protect domestic industries. And I would hope that we would use our resources first to protect our domestic industries and try to ensure jobs that would come from the entrepreneurial commercialization of patents and trademarks and copyrights.

The law today as it exists unchanged will and does, as we administer it, protect industries not only who feel that they have been injured by the violation of their intellectual property rights, but who are threatened. The law says "tendency" to injure, which we interpret as a future orientation. So we are already looking at industries who feel that they, in the future, will be injured by importation of infringing goods.

So you don't have to change the law to get to these incipiently injured industries. I would say that if the Congress wants to be more specific as to what the industry is and who it is that they want us to be protecting at the ITC, you might simply provide us with a change in the law that says that we would have a finding of an industry based on the nature and significance of the activities in the United States of the complainant, and its licensees in exploiting the intellectual property right which is at issue.

And then you could put in legislative history, delineate what types of activities would normally be considered of such a nature that would support a domestic industry, activities that range from everything from manufacturing to distribution to sales, et cetera.

I think that if you want to give us a clear delineation of what it is you want us to protect, if it includes the domestic industry, there is a way of going at that. And I would be happy to work that out with you.

I am concerned about our going the way of Great Britain where they have wonderful patents. They didn't commercialize on them. We are supposed to be here to encourage the commercialization of those patents.

Senator **Baucus**. One more question, Mr. Chairman, very briefly.

Why shouldn't the United States be a signatory to the Berne Convention? As I understand it, one of the reasons we are not has to do with the "manufacturing clause." I understand that it is GATT illegal.

Dr. **Bale**. Yes, it is.

Senator **Baucus**. If it is GATT illegal, how can we trade it away?

Dr. **Bale**. That is one significant obstacle. To answer your first question which was why shouldn't we be, we should be. We get more protection. There are more signatories to the Berne Convention. It provides a higher level of protection internationally.

One of the reasons why we have some difficulties in getting into the Berne Convention, aside from several which some well-trained copyright lawyers could explain better than I having to do with moral rights and other issues, is the manufacturing clause of the U.S. copyright law which does require a local printing of books published in the United States, which is a very old provision. And as you alluded to, Mr. Senator, it violates our international obligations under the General Agreement of Tariffs and Trade. So that is a major problem.

Senator **Baucus**. When is the administration going to recommend that we sign the convention?

Mr. **Moore**. Senator, one of the things this administration has done is to hit a couple of home runs, most recently, in the OECD Ministerial as well as the Tokyo Summit. That makes a strong statement on intellectual property rights generally, as well as intellectual property rights more specifically as a part of the new round of multilateral trade negotiations. It is awfully difficult to face a manufacturing clause problem, and have statutes on the books which prevent you from being less sinful than the next person.

The question on the health of the domestic industry is very much on the minds of the administration. But, ultimately, it is the climate by which intellectual property rights is being infringed or not being infringed that is uppermost in the minds of the administration. That is how domestic industry can best be served.

And certainly the Berne Convention and some of the problems we have been faced with such as this question of the manufacturing clause in which we have to do something by July 1 will be one step in that direction.

Dr. **Bale**. Senator, the administration is on record supporting accession to the Berne Convention. Some hearings have been held here in the Senate on this question. And the State Department, which has been leading the internal analysis of the necessary changes in U.S. laws from an administration perspective, is reviewing that. And I thinkthey may have a report. I don't know whether it is available right now. But if and when it is available, we would be happy to submit a copy of that to you.

Senator **Baucus**. The problem, then, with the Berne Convention is the Congress more than it is the administration.

I am happy to hear the administration has hit two home runs. It reminds me of Yogi Berra's day that it is not over until it is over. And I just hope that you keep hitting more home runs so we can run up that score.

Thank you.

Senator **Danforth**. I thank each of you for your testimonies.

Chairwoman **Stern**. Thank you.

[Answer to questions from Senator Danforth:]

Senator DANFORTH. Next we have a panel consisting of: Mr. Jack Valenti, Motion Picture Association of America, Inc., Washington, DC; and Ambassador Nicholas A. Veliotes, president, Association of American Publishers on behalf of the International Intellectual Property Alliance.

Mr. Valenti, your name is first on the list presumably for alphabetical reasons. Would you like to proceed?

Mr. VALENTI. I will take that as a clarion call to begin.

STATEMENT OF JACK VALENTI, PRESIDENT, MOTION PICTURE ASSOCIATION OF AMERICA, INC., WASHINGTON, DC

Mr. VALENTI. Thank you, Mr. Chairman and Senator Baucus.

The theme of my brief remarks here today are taken from that great Hollywood script writer, William Shakespeare, who, in his Richard II, had the king cry out in anguish, "Come, let us sit upon the ground and tell sad stories of the death of kings. Let us talk of graves and worms and epitaphs."

I know I have been around this town a long time. Issues ricochet around the Halls of Congress, and most of them leave about as durable an impression as dry leaves in the wind.

But there is one issue which I think can claim legitimate urgency, and that issue is fair trade or the lack of it. Mr. Chairman, you have been in the forefront planting your banner down on this issue as well as Senator Baucus. I am delighted to support you in all that you do.

I believe unless the Congress shoves some steel in its resolve to strengthen our trade laws one day we will, like Richard II, be sitting around telling sad stories of the death of our export trade and composing our own epitaphs. Maybe I sound a little apocalyptic, but if I do, it is only because the facts compel it. Now some of the things that I want to bring to your attention today. First, I want to warrant to you that the American film, television and home video industry is a precious, indispensable, irreplaceable trade asset. What we do is shielded neither by patent nor secrecy or anything else. We just happen to tell stories on film and tape better than any other people in the world. Therefore, billions of people all over the world say that what we produce is America's most wanted asset. We bring back to this country some $1 billion plus in surplus balance of trade even as our Nation is drowning in a pool of trade deficit blood that is about $150 billion a year.

Our industry even have a trade surplus with Japan. How many industries in America can say that?

As a matter of fact, we are the dominant visual force in this world. I tell you Mikhail Gorbachev would probably give up his Baltic fleet and five dozen SS-99's if he could have the Russians claim the kind of visual dominance that we enjoy ourselves.

But there is a problem. Even as foreign businessmen roam our own markets with total, unrestricted freedom and great hospitality, their markets are locked out to ours. We find in too many countries no such hospitality that we grant to others in this country. We are confronted with unscaleable trade walls. We are exiled many times from the marketplace. We are hobbled. We are caged and confined and not allowed to compete with the native industry.

I report to you that the most ingenius Machiavellian bureaucrats to be found anywhere are those who inhabit foreign chancellors sitting around devising antitrade laws, nontariff trade barriers, anything to foil our access to the marketplace and easy movement within that marketplace.

Pirates are rampant all over this world, stealing what we own. They have conspired to rob U.S. copyright owners of their rightful compensation even as their own government turns away. And sometimes we find that people close to governments are those who are involved in the actual piracy itself.

Or, too many countries have such loose fibered copyright laws or they have no laws at all that it makes it impossible or us to say "please help us."

Let me cite you two examples. I don't want to make this too long because you will see a grown man cry if I keep on this too much.

Two of our allies, our friends, even our neighbors, as an example of this. Brazil—the regulatory body for the film industry in that country has for all intents and purposes taken a brass-knuckled approach to us with an avalanche of restrictions. Most notably and most recently is the virtual exile of U.S. home video material from that marketplace. We can only operate there as a nonprofit organization and we weren't corporately born to do that.

We can't accept this kind of abandonment of a semblance of fair trade. That is why we are here today. I think just the other day Ambassador Yeutter, before the Appropriations Committee, said that the only country, where negotiations are utterly failing, in the intellectual property area particularly, is Brazil.

In Canada, our great neighbor to the North. They are contemplating the most draconian restrictions in the known world, where they are literally going to say that an American company cannot exhibit and distribute its products in that country. You must turn your material over to a Canadian company. Even at this moment they are disallowing some American companies to even open offices there. Yet Canadian businessmen are having a high old time in the American marketplace, without restrictions of any kind, invading every area of our Nation.

They do this under a term you will hear more and more. It is the canopy called cultural sovereignty. I'm not sure what that means except that in Canada it means they will allow our merchandise to come in, but it must be distributed by Canadians. Some culture, some sovereignty.

Moreover, Canadian cable companies fetch from the skies American television signals, bring them into their head end, sell them to subscribers on which they make a profit and pay not one penny, not one cent, to the owners of that property here in this country.

So we have come forward to try to plead, Senator Baucus, with this committee to support Senator Pete Wilson's international intellectual property protection and market access bill. Very simply, it is a three-pronged measure.

No. 1, it would say that there would be compiled within the USTR a list of priority foreign countries. Listing in that catalog all the dreary outlines of what they are doing to inhibit the free movement of U.S. intellectual property, and the protection, or lack of it, of intellectual property in those countries.

Second, the USTR would be given 2 years to negotiate a fair trade agreement.

And, three, if that agreement was not forthcoming within 2 years, the President would be required to take some kind of firm response. Because I think without the prospect of pain, I don't believe we are going to get anywhere. We certainly haven't in the past.

So that is the essence of this measure. And what it says essentially is: You folks in the other countries are going to have to let us move freely in your markets as you do here. None of this cultural sovereignty hogwash. It is going to be a two-way street.

I think that too many countries, Senator, feel about fair trade as if they were holding a wolf by the ears. We would like to change that attitude.

I salute the administration, too, for its clear call to arms on the intellectual property front, and I certainly say the USTR's office has been most helpful with the meager weaponry they have sometime to give us what aid they can.

I am done. I just want you to know, Senator Baucus, that we are not here asking for any special favors or any special privileges. We don't want you to erect any sandbags of protection for us. We only want the right to compete fairly with other countries in their marketplaces with the same kind of hospitable entry as they find so seductive and so alluring in ours. No more, no less. End of statement.

Senator BAUCUS. Thank you, Jack.

[The prepared written statement of Mr. Valenti follows:]

Testimony of Jack Valenti
President
Motion Picture Association of America, Inc.

Mr. Chairman, Members of the Committee, my name is Jack Valenti. I am President of the Motion Picture Association of America, Inc., whose members are producers and distributors of video entertainment material for theatrical, television and home video exhibition. The MPAA member companies distribute feature films, television programs and home video materials in the United States and some 80 foreign countries. The foreign export activities of the U.S. motion picture industry as a whole contribute over $2 billion annually to this country's foreign exchange earnings. Attached to my statement is a list of MPAA members.

These hearings are extremely important given the acute trade problems faced by the motion picture industry and the entire American economy.

The U.S. film and television industry yearns to compete fairly and equitably in every market on every continent in the world.

We ask for no special treatment from our government. But we ask our government to assist our industry in combatting unfair treatment from other countries in their markets.

The American motion picture industry is robust, competitive and has a product which is in demand around the world. People throughout the world want to see and enjoy American films and television programs more than any other country's similar creative material. Perhaps because of our success, American motion picture companies have become the victims of extensive foreign unfair trade practices. These practices essentially fall into two categories: market access barriers and infringements on intellectual property rights.

U.S. motion pictures, books, music, records, computer software and other forms of intellectual property are subject to widespread piracy around the world. Piracy of U.S. works is frequently aided by foreign governments that refuse to provide adequate intellectual property protection or fail to enforce their intellectual property statutes effectively. A recent study by the International Intellectual Property Alliance, of which MPAA is a founding member, determined that in ten countries alone, the U.S. film, record, book and software industries suffered over $1.3 billion in piracy losses.

In addition to inadequate and ineffective intellectual property protection abroad, U.S. motion pictures frequently confront serious market access barriers. Often behind the cover of "cultural sovereignty" foreign governments have erected restrictions and prohibitions against American motion pictures. Let me give you two examples of such barriers in both a developing and an industrialized country.

In Brazil, the official regulatory body of the film industry limits the exhibition of U.S. films through screen quotas, imposes burdensome local printing requirements, and effectively excludes U.S. companies from the home video market. Exclusion from the home video market is accomplished through quotas which require that 25% of all home video titles and 25% of all copies be Brazilian films. These requirements act as an import quota as well as an import tax.

In Canada, the government has imposed severe restrictions and requirements on American film companies, and has refused to provide adequate protection of intellectual property rights. Canadian copyright law permits Canadian cable television companies to retransmit

U.S. television programming without authorization by or compensation to U.S. program owners. Canadian firms essentially pirate the programming of American companies without paying for it. In addition, the Quebec Parliament has enacted legislation which, among other things, will require foreign distributors to invest up to 10% of revenues in local production and will reserve minimum percentages on gross box office revenues for local exhibitors and distributors. Such requirements are baldly protectionist and infringe the rights of American motion picture companies to do business in Canada.

These impediments to fair and open trade between countries which share a common border are in danger of being exacerbated. A recent report on film and video policy, completed under the auspice of the Canadian Department of Communications, recommends the nationalization of all motion picture distribution to theaters, television stations, and home video stores. The report does not endorse restrictions on foreign films. Instead, it advocates the creation of a system which will reserve for Canadians the financial return from the distribution of our films. We have a right to control and participate financially in the distribution of our products -- this is a well recognized right under international copyright standards. It should not be denied under the guise of preserving "cultural identity."

These problems have been the topic of extensive diplomatic consultations. Unfortunately, however, diplomatic efforts frequently produce meager results. That is why we need Congressional action. Our trade negotiators, as capable as they are, cannot deliver results if they are unarmed. You must give them the ammunition they need to open foreign markets and to enforce international norms of intellectual property protection. Unless this is done, our motion picture and television production industries will be throttled at the starting gate.

First, the U.S. must set an example by assuring foreign intellectual property owners of adequate and effective protection within our borders and access to our markets. The U.S. should join the Berne Copyright Convention which provides a higher level of protection than the International Copyright Convention presently adhered to by the U.S. In addition, Congress should not renew the protectionist manufacturing clause of our copyright act. This measure prohibits the importation of certain printed material from foreign nations in violation of our obligations under the General Agreement on Tariff and Trade. It is frequently cited by foreign countries as a reason not to extend copyright protection and market access to U.S. citizens.

Second, our trade laws must be bolstered and reinforced if we are to succeed in forging a more effective trade policy. We need comprehensive legislation to address the unique problems of United States companies that rely upon intellectual property protection. Current U.S. trade law is inadequate to deal with the international piracy of our intellectual property -- our copyrights, patents and trademarks are being wantonly infringed around the world -- and they are inadequate to open foreign markets for our companies.

Our trade problems have become so acute, and the foreign resistance to solving them has become so entrenched, that we need new provisions in U.S. trade law to deal with them. For this reason, I heartily endorse the legislation introduced this past Monday by Senator Wilson. This new legislation would form the basis for a new and effective trade policy -- one that would force foreign governments to come to grips with the serious problems of intellectual property protection and market access.

In the House, Congressman Downey introduced a provision similar to the market access title in the Wilson bill. With the support and leadership of Committee Chairman Rostenkowski and Subcommittee Chairman Gibbons, this provision was incorporated into the omnibus trade bill recently reported by the Ways and Means Committee.

The Wilson bill would create a new three-part mechanism to address the problems of intellectual property protection and foreign market access. Each year, after conducting his study of foreign trade barriers and intellectual property violations under section 181 of the 1974 Act, the Trade Representative would select "priority foreign countries" that do not adequately protect our intellectual property and keep their markets closed to our exports. Second, the Trade Representative would be given two years to negotiate agreements with these "priority foreign countries." Finally, the President would be required to respond in some way against any "priority foreign country" that refuses to enter into an agreement or otherwise cease its guilty practices within those two years.

Our companies that rely upon intellectual property protection require such a mechanism -- we need this in order to keep many of our most competitive industries from falling prey to unfair trade practices. We cannot simply rely on the traditional tools of U.S. trade policy.

Many of these industries are classified as "cultural" and foreign governments therefore refuse to even discuss trade barriers directed at these industries -- unlike other American industries that can simply rely on the traditional process of trade negotiations. "Cultural sovereignty" has become a smoke screen used to hide the most insidious restrictions on trade and investment. In addition, many of these industries have extremely short product life-cycles and cannot wait for the outcome of traditional multilateral trade negotiations.

Section 301 of the Trade Act of 1974 is inadequate to address the unique market access dilemma confronted by American companies that rely upon intellectual property protection. Section 301 is intended to deal with specific trade problems in specific foreign countries. These American companies need a comprehensive provision in U.S. trade law mandating immediate and expeditious trade negotiations with the many foreign governments that now either refuse to discuss these "cultural" problems or find it easy to engage in delaying tactics.

The Wilson bill would also amend the Generalized System of Preferences and the Caribbean Basin Iniative legislation in order to induce countries that benefit from our preferential trade programs to halt their piracy of our intellectual property and open their markets to our exports. These programs provide important leverage to our trade negotiators and I believe that these amendments would greatly enhance the value of these programs as inducements to encourage fair trade. By allowing the President to partially reduce CBI benefits, instead of terminating all benefits, he will use this sanction more readily.

As our government seeks to redress our many trade problems, our trade agencies have found themselves stretched to a breaking point. In particular, the Office of the U.S. Trade Representative is doing a valiant job, but simply does not have the resources to attack the vast array of foreign unfair trade practices. In order to carry out the provisions of the Wilson bill, and to administer section 301, the Wilson bill would establish an Office of Enforcement in USTR. Funding for the office would also be included.

Finally, section 337 of the Tariff Act of 1930 is in desperate need of revision. The Wilson bill would amend section 337 to permit speedier and more successful International Trade Commission actions against the importation of infringing copies of copyrighted works, including counterfeit video product. Specifically, the bill would eliminate the need to prove injury; all that would be required is a showing that the importation of an article constitutes an infringement in order for the ITC to take action.

These new procedures do not replace a policy of agressively pursuing trade agreements in a New Round of GATT negotiations. The upcoming New Round provides an important forum in which international intellectual property protection and foreign market access can be enhanced. However, the problems that I have discussed here today cannot await the outcome of the New Round. For this reason, it is imperative that this forward-looking bill introduced by Senator Wilson be taken up by this committee and incorporated into U.S. trade law.

I look forward to working with you, the Members of the Finance Committee, as well as other committees with appropriate jurisdiction, in the weeks and months ahead to assist in fashioning trade legislation. We need legislation that will provide new tools to combat unfair trade practices -- we must properly arm our trade negotiators -- we must give new momentum and direction to America's trade policy -- and we must send a clear and unambiguous message to our trading partners: that our concerns must be taken care of at the negotiating table.

STATEMENT OF AMBASSADOR NICHOLAS A. VELIOTES, PRESIDENT, ASSOCIATION OF AMERICAN PUBLISHERS, WASHINGTON, DC; ON BEHALF OF THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Ambassador **Veliotes**. I am the new president of the Association of American Publishers, and I welcome the opportunity to make my first appearance before the Congress in my new capacity here before this distinguished committee.

I know, Senator, that you and the committee are well acquainted with the International Intellectual Property Alliance, the umbrella organization of trade associations representing the U.S. copyright industries. I am here speaking on behalf of the alliance today.

The members, in addition to the book industry, include the Motion Picture Association of America, my distinguished colleague, Jack Valenti; the American Film Marketing Association; the computer software industry; and the recording and music industry. In keeping with the newness of my role, I will make a very brief statement.

I am tempted to just simply endorse what Jack Valenti has said and let it go at that, but I think I have to go a little beyond that.

Mr. Chairman, the hundreds of companies, the thousands of artists, editors, producers, composers, writers—in essence, the intellectual genius of the country which we represent depend vitally on a world trading environment in which our creative efforts are secured through adequate and effective protection of the copyrighted works which we create and distribute. We came together in the alliance in order to impress upon the Congress and the administration the fact that we were hurting, and that the actual damage was significant, and the potential damage to the United States as a whole through the discouragement of its creative energies was enormous.

We called on you to help forge the necessary legal tools to enable our trade negotiators to convince foreign nations to take action in our own and in their interest against the massive and debilitating piracy and counterfeiting of U.S. books, music, records, films, video cassettes, computer software products, you name it, which represents not only the best of our creativity but the leading edge of technological innovation, which is very important today and will be even more important in international trade in the future.

The scope of this piracy is staggering. We estimate that U.S. copyright industries lose over $1.3 billion a year in just 10 countries that we had identified in a report by the International Intellectual Property Alliance to the U.S. Trade Representative.

Mr. Chairman, I would like, with your permission, to submit this report for the record.

Senator **Danforth**. Fine.

Ambassador **Veliotes**. It is dated August 1985; very timely and pertinent.

[The information from Ambassador Veliotes follows:]

PIRACY
OF
U.S. COPYRIGHTED WORKS
IN TEN SELECTED COUNTRIES

A REPORT BY THE
INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE
TO THE
UNITED STATES TRADE REPRESENTATIVE

AUGUST, 1985

The Alliance

ADAPSO - The Computer Software and Services Industry Association
American Film Marketing Association
Association of American Publishers
Computer and Business Equipment Manufacturers Association
International Anticounterfeiting Coalition
Motion Picture Association of America
National Music Publishers' Association
Recording Industry Association of America

Of Counsel:
Eric H. Smith
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Washington, D.C.

This report has been prepared in response to the request for public comments by the Trade Policy Staff Committee's Subcommittee on Intellectual Property on "Country Practices Related to Identified Trade Barriers" (50 Fed. Reg. 3853, January 28, 1985) and for consideration by the TPSC GSP Subcommittee in particular connection with its General Review of the U.S. Generalized System of Preferences (50 Fed. Reg. 6295, February 14, 1985 and 50 Fed. Reg. 19513, May 8, 1985).

EXECUTIVE SUMMARY

This report has two objectives. First, it attempts to estimate the losses in revenue to the U.S. copyright industry resulting from the failure of ten selected countries to provide adequate and effective protection for American motion pictures, records and tapes, books and computer software. These countries are located in Asia - Singapore, Taiwan, Indonesia, Korea, Philippines, Malaysia and Thailand; in Latin America - Brazil; in the Middle East - Egypt; and in Africa - Nigeria. Second, it summarizes four principles that should be applied in determining whether a country accords "adequate and effective" copyright protection to U.S. works, as required by the GSP Renewal Act and the International Trade and Investment Act of 1984, and, in the Appendix, applies these principles to each surveyed country.

The Table on the following page details the Alliance's findings that in these ten countries alone trade losses to the United States (and its copyright industries represented in the Alliance) are estimated to be over $1.3 billion annually as a result of failure to provide adequate and effective protection to U.S. copyrighted works.

Estimated losses to the recording and music industry are over $600 million annually, to book publishing, over $400 million, to the movie industry, over $130 million and to the computer software industry, over $125 million. The list of pirate countries is led by Singapore, responsible for losses of $358 million, followed by Indonesia, $206 million, and Taiwan, $186 million.

These staggering losses reflect more than lost revenues from piracy in these countries' domestic economies. Singapore, Taiwan and Indonesia are alone responsible for the export of approximately $480 million in pirated records and books to Asia, Africa and Europe.

The report and surveys contained in the Appendix detail those provisions of each country's law and practice which are deficient and fail to meet the new trade amendment's statutory test of "adequate and effective" protection.

The U.S. government must commit its full resources to obtaining improvements in copyright protection in these, and other, developing countries. The United States Trade Representative should inform these countries that their requests for competitive need waivers will not be granted and their status as GSP beneficiaries is in grave doubt unless immediate, significant improvements are made.

TABLE

ESTIMATED LOSSES FROM PIRACY IN TEN SELECTED COUNTRIES[1]

(in millions)

	Records/ Tapes	Motion Pictures	Books	Software[2]	Total
Singapore	$220[3]	$ 11	$107[3]	$ 20	$358[3]
Taiwan	$ 9	$ 25	$118[4]	$ 34	$186[4]
Indonesia	$180[5]	$ 17	$ 6	$ 3	$206[5]
Korea	$ 40	$ 16	$ 70	$ 20	$146
Philippines	$ 4	$ 19	$ 70	$ 4	$ 97
Malaysia	$ 33	$ 13	$ 20	$ 7	$ 73
Thailand	$ 13	$ 12	$ 7	$ 2	$ 34
Brazil	$ 19	$ 13	$ 8	$ 35	$ 75
Egypt	$ 5	$ 5	$ 10	$ 3	$ 23
Nigeria	$120	[6]	$ 11	[6]	$131
TOTAL	$643	$131	$427	$128	$ 1,329[7]

[1] Estimated losses reflect sale of pirated works in the domestic economy, except for Singapore, Taiwan and Indonesia where the figures include losses resulting from export of pirated works.

[2] While exports of software are known to occur from some countries, we have been unable to estimate such losses; these figures reflect domestic piracy only.

[3] Records/Tapes: domestic $50 and export $170; Books: domestic $7 and export $100; Total: domestic $88 and export $270.

[4] Books: domestic $8 and export $110; Total: domestic $76 and export $110.

[5] Records/Tapes: domestic $80 and export $100; Total: domestic $106 and export $100.

[6] Because there are no available data on VCR penetration in Nigeria, it is not possible to estimate losses. No estimate is available for software piracy.

[7] Domestic $849 and export $480.

I. INTRODUCTION

This report is submitted to the Trade Policy Staff Committee's Intellectual Property and GSP Subcommittees for use, respectively, in connection with preparation of a report by the U.S. Trade Representative to the House Ways and Means Committee and the Senate Finance Committee on trade barriers that have an adverse impact on U.S. trade and investment and in connection with the GSP program's general and annual review required by the GSP Renewal Act. The USTR report to Congress analyzing trade barriers and estimating their trade impact is due October 19, 1985, pursuant to Section 303 of the Trade and Tariff Act of 1984.

The International Intellectual Property Alliance is an umbrella organization representing eight trade associations, each of which in turn represents a significant segment of the copyright industry in the United States. The Alliance consists of ADAPSO: The Computer Software and Services Industry Association, the American Film Marketing Association (AFMA), the Association of American Publishers (AAP), the Computer and Business Equipment Manufacturers Association (CBEMA), the International Anticounterfeiting Coalition (IACC), the Motion Picture Association of America (MPAA), the National Music Publishers' Association (NMPA) and the Recording Industry Association of America (RIAA). These Associations have joined together because the viability of the thousands of companies they represent depends on adequate and effective copyright protection for the products they produce and export worldwide.

U.S. trade in copyrighted works is, to an ever increasing extent, critical to maintaining the strength and competitiveness of the U.S. within the world economy. The copyright and information-related industries contributed over $153 billion to the U.S. economy in 1982[1], employ 2.2% of the U.S. civilian labor force[2], and earned a trade surplus in 1982 of over $1.2 billion.[3] While the potential for export growth in goods and services produced by the copyright industry is likely the highest of any sector in the U.S. economy, realization of this potential is critically dependent on eliminating its principal non-tariff trade barrier -- the worldwide piracy of U.S. copyrighted works on a mammoth scale.

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[1] The Effects of Foreign Product Counterfeiting on U.S. Industry, Final Report on Investigation No. 332-158 under Section 332(b) of the Tariff Act of 1930, January 1984, by the U.S. International Trade Commission.

[2] Size of the Copyright Industries in the United States, A Report of the U.S. Copyright Office to the Subcommittee on Patents, Copyrights and Trademarks of the committee on the Judiciary, United States Senate, December 1984.

[3] The Effects of Foreign Product Counterfeiting on U.S. Industry, Final Report on Investigation No. 332-158 under Section 332(b) of the Tariff Act of 1930, January 1984, by the U.S. International Trade Commission.

This report seeks to illustrate in detail the scope of this problem. The Alliance has surveyed ten countries, nine of which are beneficiaries under the GSP program (importing $7.2 billion of goods duty-free into the U.S.) and one other -- Nigeria -- which, because of its OPEC membership, is ineligible for GSP beneficiary status. These countries were not selected because they represent the most egregious pirate nations -- though some, like Singapore, Taiwan, Indonesia and Korea, meet that test -- or necessarily are responsible for the largest losses to the copyright industry. They do, however, represent a broad cross-section of countries from each area of the developing world.4/

The Alliance and its constituent associations have provided and will continue to provide similar information on other problem countries as that information becomes available and is compiled.

II. PIRACY AND OTHER TRADE BARRIERS

This report is concerned only with losses due to piracy -- the unauthorized duplication and sale of another's creative work. Yet there are other trade barriers which also cause significant damage to the U.S. copyright industry, not only by restricting trade but in creating the environment in which piracy flourishes. These barriers include quotas, high duties, special and discriminatory taxes, local ownership requirements, screen and air-time restrictions, forced subsidies of local industry, currency controls, etc. Where a U.S. company is not able, as a result of these other barriers, to make legitimate products available in these countries (where demand for U.S. works is generally high), it usually finds that pirates quickly fill the gap. Where these trade barriers are particularly onerous, even improved intellectual property protection may only minimally reduce losses since U.S. companies absent from the market will have little incentive to enforce their existing intellectual property rights. This situation pertains, for example, in Korea for the motion picture industry, and in Brazil for the computer software industry. In this respect, market access and

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4/ Other developing countries where piracy is substantial include India, Pakistan, Mainland China, Saudi Arabia, Kuwait, Turkey, Mexico, Peru, Dominican Republic, Costa Rica, Panama, Jamaica, Argentina, Columbia and Venezuela, among others. Mainland China, for example, is without question the largest book pirate nation in the world.

intellectual property protection are closely intertwined; the U.S. must insist on improvements in both areas.

III. THE ECONOMICS AND TRADE IMPACT OF COPYRIGHT PIRACY: ESTIMATES OF LOSSES TO THE U.S. COPYRIGHT INDUSTRIES

Because piracy is a clandestine activity, it is not possible to provide exact data on lost revenues. Alliance members have attempted, however, to estimate these losses relying on both available data and extrapolations therefrom, and on the considered observations of marketing and enforcement representatives from each industry in each country or region. Estimates have been made for the motion picture, book publishing, computer software and recording industries. As illustrated in the preceding Table (p. ii), individual estimates have been combined to provide estimates in all countries for each industry and in each country for all industries.

Motion Pictures

The estimate of losses due to piracy in each surveyed country includes losses due to unauthorized reproduction, sale and rental of videocassettes as well as reductions in theatrical revenues which result from the release of pirated videocassettes into the market prior to theatrical release. The estimates do not include significant additional losses due to unauthorized performances of motion pictures on television or in bars, clubs, etc., or losses resulting from unauthorized interception and retransmission of satellite signals where they occur.

In general, the estimates assume a correlation between the number of VCRs in a given country (for which data are available) and the revenue that would be earned if the market were free from piracy and open to U.S. companies. From its own records and from published estimates of industry revenues and VCR penetration, MPAA has estimated that the average revenue generated by one VCR in "opened" or "legitimate"[5] markets is approximately $28.30. This estimate is derived:

1. By taking the revenues of the MPAA member companies earned from the home video market in all "opened" countries.

2. By adding to this figure similar revenues earned by non-MPAA independent distributors.

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[5] By "opened" or "legitimate" market, we mean a country which provides adequate copyright protection and permits U.S. companies to freely market their products.

3. By adding to this composite figure an additional 30% to account for the revenues received by pirates in "opened" markets. (This 30% figure is again an estimated average but is believed to be reasonably reliable because data on piracy in "opened" markets is itself more reliable.) This total figure then represents total revenues which would be earned in all "opened" markets.

4. By dividing this total revenue figure by the total number of VCRs in "opened" markets, yielding a revenue per VCR of $28.30.

5. By multiplying $28.30 times the number of VCRs in that country, the result is the total estimated revenue losses from lost videocassette sales.

6. By adding to this number an estimate for lost theatrical revenues. Exhibitors estimate that theatrical revenue is reduced by approximately 30% when a title is available on cassette prior to theatrical release and that in "unopened" or pirate markets at least 50% of the titles are available before theatrical release. This results in a 15% decrease in theatrical revenue received in each country.

It should be noted that, when applied to developing countries where piracy is predominant, this estimate would tend to be conservative because of the wider reliance on the VCR for entertainment than in "opened" markets where television and pay-TV provide considerable competition to the home video market. For example, the lack of well-developed television systems in the countries surveyed has spurred increased reliance on the VCR. Countering this tendency -- tending to push the estimate downwards -- is the fact that the "opened" markets (where the U.S. product has a very high share) tend to be more receptive to movies in the English language, whereas this receptivity is less in developing countries where the language barrier is greater. MPAA believes that these opposing tendencies may balance each other out.

Records and Tapes

Estimates of losses due to piracy of records and tapes have been provided by the International Federation of Phonogram and Videogram Producers (IFPI) and through its local representatives. RIAA is a member of IFPI. IFPI representatives have provided the Alliance with their estimates of the total pirated output of international repetoire in each country. This figure (i.e., number of pirated units sold in each country) is then multiplied by the average retail price of legitimate international product in that country (e.g., legitimate cassettes sell in the Philippines for about $2.50 and in Taiwan for about $3.00). The resulting figure represents total "potential" sales if piracy were not present. This estimate is then multiplied by 70% representing the average percentage that U.S.-owned works bear to total international works available in that country. This estimate, of course, would be affected by the elasticity (or inelasticity) of demand for units of legitimate product at the legitimate price -- a factor that could be neutral or suggest some downward revision of the estimate.

This figure of potential lost sales (which is used in each survey) assumes that it represents actual losses directly to U.S. industry (including the record company, music publisher and associated support industries). It should be noted, however, that without piracy, records and tapes would often be licensed for local manufacture in the surveyed country and the actual loss to the U.S. industry (e.g., revenues less costs of manufacture and local distribution which would remain in the country), would be lower than these estimates. Because it is difficult to provide estimates of lost "sales less local costs," we have used the full "potential" sales estimate.

Books

Because of wide differences in the cost of producing (and therefore the price) of individual books, and the fact that U.S. book publishers both export U.S. books directly and locally manufacture "low cost" editions (directly and under license) in developing countries, it was not possible to develop loss estimates on the same basis as for movies and records/tapes. The book loss estimates are, therefore, calculated at pirate prices which are generally (but not always) below the prices which would be charged for legitimate books. Moreover, book sales are likely to be more sensitive to price differences than other works.

The book estimates have been based on information received from the local representatives of major U.S. publishers actively involved in the international market and from published and unpublished reports by indigenous book publishers. They also include very conservative estimates of losses due to unauthorized systematic photocopying.

Computer Software

It has proved particularly difficult to estimate computer software piracy. Because computers are relatively new in the developing world, piracy is also recent. Yet, the industry reports exponential increases in piratical activity as sales of computers expand. For this reason, it is particularly urgent that piracy be halted before it matures. The Alliance is hopeful that improved estimates can be developed and provided separately.

To arrive at the estimates contained in the Table and surveys, we have used industry estimates based on piracy in Taiwan and extrapolated therefrom based on reports of the relevant sizes of the other markets in terms of legitimate and pirated product. In Taiwan, it is estimated that approximately 15,000 units of the 10 most popular U.S. software programs are sold each month, only 1,000 representing sales of legitimate product. By applying an average sales price of $200 to the 14,000 pirated units, it is estimated that losses in Taiwan are about $2.8 million per month or approximately $34 million per year. This figure does not include piracy of operating systems software which is extensive in many of these countries.

Applying to these losses a ratio based on estimates of market size and other subjective factors, we have estimated losses from piracy in the other countries surveyed.

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The Table (p. ii) summarizes the estimates appearing in each country survey -- a staggering $1.3 billion loss for the ten countries. The three largest GSP beneficiary countries in 1984, Taiwan, Korea and Brazil, themselves account for losses of over $400 million. The seven Asian countries surveyed, which imported over $6 billion worth of goods duty-free under the GSP program in 1984 (47% of the world total) reward U.S. generosity by pirating over $1 billion in copyrighted works produced by Alliance members.

The highest losses ($643 million), not surprisingly given the popularity of American music worldwide, are suffered by the American music industry. Singapore and Indonesia are the worst offenders. U.S. book publishers suffered $427 million in losses, led by Taiwan, Singapore, Korea and the Philippines. The motion picture industry lost $131 million, and while less than the losses suffered by records and books, this figure is likely to grow very rapidly as VCR penetration expands in the developing world. Computer software piracy is most advanced in Taiwan, Brazil, Korea and Singapore and is growing rapidly there and elsewhere.

The most pernicious and inexcusable losses result from exports of pirated works by Singapore, Taiwan and Indonesia. These three countries export an estimated $480 million in pirated works throughout the world, disrupting existing markets with calculated efficiency.

These losses are unconscionable and in most cases the result of deliberate national policy. These countries must be advised that further delays and excuses in taking immediate corrective action will no longer be tolerated.

IV. THE GOAL OF ADEQUATE AND EFFECTIVE COPYRIGHT PROTECTION: THE ALLIANCE'S FOUR PRINCIPLES OF PROTECTION

The over $1.3 billion in losses suffered by the U.S. copyright industry in the countries surveyed are a direct result of the failure of these countries to provide adequate and effective copyright protection to U.S. works. This failure not only contributes significantly to the U.S. trade imbalance but directly reduces employment and investment in the affected U.S. copyright industries. Further, it damages the country condoning piracy by creating an underground economy immune from taxes and other regulatory controls; by damaging the investment climate and bringing the country into international disrepute; and by subjecting its own creators and associated publishers and distributors to unfair competition from cheap and inferior product.

The U.S. government's goal must be to establish an international trading climate in which intellectual property is respected and protected. The U.S. Trade Representative took the lead in recognizing the importance to U.S. trade of protecting intellectual property by supporting amendments in the law authorizing renewal of the Generalized System of Preferences program and in the International Trade and Investment Act. These laws, as well as the Caribbean Basin Economic Recovery Act, contain provisions which condition U.S. trade benefits to other countries on

> the extent to which such country provides adequate and effective means under its laws for foreign nationals to secure, to exercise and to enforce exclusive rights in intellectual property including patent, trademark and copyright rights.

By emphasizing the means "to secure, to exercise and to enforce" such rights, these laws look to the practical, rather than theoretical, protection which a nation affords to foreign nationals. As detailed in the Appendix, many of the countries we surveyed provide relatively good protection in theory but often fail to enforce their laws to deter pirate activity in practice.

In the Appendix, the Alliance has analyzed each country's copyright system by testing the protection it provides against four principles which we believe define the statutory test of "adequate and effective" protection.[6] Congress called upon the President to consult with the private sector, and the U.S. Copyright Office and Patent and Trademark Office "to fashion a set of general guidelines to be applied, consistently and objectively." The principles set forth below are strongly supported by the Alliance as consistent with that mandate. They represent a set of guaranteed fundamental rights for copyright owners which must exist if our world trading system -- increasingly reliant on trade in intellectual property -- is to grow to the benefit of both developed and developing countries.

Principle 1: National Law Should Ensure That Traditional and New Forms of Works, Regardless of How Embodied or Distributed, Are Subject to Copyright Protection

Most of the countries surveyed protect works traditionally protected by copyright. Some, however, do not clearly protect videocassettes or sound recordings (e.g., Singapore and Indonesia, respectively). Protection must be afforded to new works: computer programs should be protected as a form of literary work but, as in Taiwan's new law, should be expressly identified as a protected work to avoid uncertainty. Efforts must be made to make clear that computer programs are protected regardless of the form in which they are expressed (e.g., whether in written, digital, analog or machine readable format), regardless of their function (e.g., as operating or application programs), and regardless of the medium in which they are embodied or transmitted. Protection should be afforded to electronic publishing: display and transmission rights should be granted and electronic databases protected as compilations. Few of these countries have acknowledged such express protection.

Each survey commences with a review of the critical issue of eligibility of protection for U.S. works generally. With the exception of Brazil and Nigeria, which are UCC members, most countries surveyed restrict the eligibility of U.S. works. In Korea, no U.S. works are eligible for protection. In Indonesia, U.S. works are eligible only if published in Indonesia within 30 days of their first publication in the U.S. Many countries do not clearly make U.S. sound recordings eligible for protection.

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[6] Each survey represents a summary of the principal deficiencies in each country's protection of copyrighted works. They should not be viewed as exhaustive and, with certain exceptions, do not, for example, take into account provisions of each country's civil or criminal code which may contain other restrictions or procedural and evidentiary burdens hampering effective enforcement of copyright rights.

The absence of clear national eligibility rules covering U.S. works (and the absence of effective deterrent penalties) is perhaps the most critical factor ensuring the persistence of piracy in the countries surveyed. Such clarity can best be obtained by adherence to the Conventions.[1]

Principle 2: National Law Should Provide the Full Panoply of Exclusive Rights to U.S. Copyright Owners and Provide Protection for an Adequate Term

A. Scope of Rights

Countries must provide not only the traditional rights of reproduction, adaptation, public performance and the right to transfer ownership freely, but should include the right to publicly display all works and transmit them electronically. The term "public" should be defined in such a fashion to cover transmission within networks and to subscribers. Retransmission rights (via cable, from international or domestic satellite, or by other means) should be covered. The exclusive right to translate (e.g., entirely absent as a matter of statute in Taiwan and in practice in the Philippines) must also be afforded. In the countries surveyed, many of these rights are absent.

B. Limitations on Exclusive Rights and Compulsory Licenses

Limited exceptions to these broad rights have been recognized in both the Berne and Universal Copyright Conventions. Yet many of the countries surveyed have adopted limitations far beyond those permitted in the Conventions. Singapore, for example, exempts the broadcasting of music by the government and many countries have adopted compulsory licenses which are mere cloaks for what is tantamount to piracy. For example, the Philippines reserves the right to translate U.S. works at confiscatory fees, and Taiwan simply discriminates against foreign works by not affording any translation right. In addition to being inconsistent substantively with the norms in the Conventions, most of the compulsory licenses fail to contain procedural safeguards -- including notification of the copyright owner where an application for an involuntary license has been made, provisions for appearance at a hearing, mechanisms to ensure payment and remittance of reasonable royalties, and workable systems to assure that exports of copies made pursuant to such licenses will be effectively prevented.

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[1] Though Taiwan cannot join the Conventions, eligibility issues can be clarified in a bilateral arrangement. See survey on Taiwan.

The United States should oppose the implementation of compulsory licenses, unless the country demonstrates a clear case that legitimate local needs have not and cannot be met by voluntary licensing. At the very minimum, where necessary, these licenses should be brought into conformance with international norms.

C. Retroactivity

In the case of countries that have previously afforded no meaningful protection to the works of foreign nationals, the issue of retroactive protection is of crucial importance. Countries like Korea, Indonesia and Singapore that have afforded no protection to U.S. works in the past should provide for retroactive application of their law. Without such provision, the new law would result in little or no protection, as a practical matter, for many classes of works. If there were no retroactivity, piracy of older unprotected material would likely continue unabated and these pirated works would unfairly compete with trade in newer, protected works. The case of textbooks and software are prime examples.

D. Term of Protection

With respect to the duration of protection, the U.S. government should support the now virtually standard international norm of "life plus 50 years" and 50 to 75 years after public dissemination for works made for hire, e.g., motion pictures, sound recordings and similar works. Attempts to create varying terms of protection based on the perceived social or scientific value of a particular work or class should be resisted as ultimately damaging to world trade and to harmonizing long-established copyright principles.

Principle 3: National Law and Regulations Should Eliminate Onerous Substantive and Procedural Formalities That Inhibit the Effective Exercise and Enforcement of Copyright Laws

The emerging international trend is to eliminate any formalities. Onerous formalities, whether substantive or procedural, can make the right "to secure, to exercise and to enforce" exclusive rights, as a practical matter, illusory. The Berne and Universal Conventions deal only in general terms with these problems. Nevertheless they remain one of the principal hindrances to effective protection abroad.

Taiwan, for example, makes registration a condition to protection for foreign works and imposes onerous administrative burdens and costs on registrants. Only the pirates benefit. Singapore requires oral as well as affidavit testimony of ownership and of the facts showing simultaneous publication, significantly increasing enforcement costs and delays. Censorship requirements are often tied directly to copyright protection (e.g., Taiwan), with ruinous consequences.

Most of these requirements are unnecessary; the U.S. government should seek their elimination.

Principle 4: National Law Should Provide Adequate Remedies: Penalties Should Be at a Level That Effectively Deters Infringement and Governments Should Commit to Enforce Their Laws

Virtually all countries surveyed either have woefully inadequate penalties or fail to impose those they do have. In Singapore, the maximum statutory penalty for record piracy is U.S. $900 and 1 year in prison (for other works the penalty is even lower) and even these are rarely imposed. In Egypt, a piracy offense carriers a maximum penalty of only $135 -- a mere "cost of doing business" for pirates. Even repeat offenders face only a maximum of three months in prison. The United States must insist on a criminal penalty structure that realistically deters piracy.

Improvements should be made to permit civil actions to proceed efficiently. Adequate civil remedies, including punitive damages upon proper proof, and provisions for injunctive relief, pre-trial impoundment and *ex parte* seizures upon reasonable showings should be permitted.

Governments must commit resources to fighting piracy and publicly condemn such activity. While certain of the countries surveyed are making headway, many are not. Training, additional personnel and financial resources must be made available; where they are not, piracy is too lucrative a business to be deterred.

V. CONCLUSION

When the surveyed countries' legal regimes are measured against the statutory mandate in the 1984 Trade amendments, it is clear that none meets the test. Unless these countries take immediate and tangible steps to improve their system of protection and reduce the massive and growing damage to U.S. copyright owners, the Alliance believes the President must consider limiting such benefits and, in appropriate cases, suspending or terminating the beneficiary status of the offending countries. Since the passage of the Trade and Tariff Act ten months ago, with the exception of Taiwan, we have at the most heard only indications that improvements will be made. Delay can no longer be excused; the resolve of the U.S. to combat piracy must be made crystal clear.

Recently, many of the surveyed countries have petitioned USTR to waive the competitive need limits on certain of their exports to the U.S. Singapore has sought such action on 18 different products including computers and tape players. Taiwan has sought waivers on 50 products, the Philippines 11, Korea 34 and Malaysia 16. As was stated by Townsend Hoopes, President of AAP in testifying on behalf of the Alliance at the GSP Subcommittee's hearings on June 25, 1985:

> It is a sham for our government to strengthen the economic benefits of the very countries most responsible for piracy of U.S. intellectual property.

The United States Trade Representative should make it known to these countries that such waivers will not be granted unless immediate and significant improvements are made, and that their GSP beneficiary status is itself in grave jeopardy.

The accelerated availability of medium and high technology products -- VCRs, tape recorders, etc. -- in the developing world has caused a massive increase in piracy in just the last 5 years. The same process occurs: the market is opened with legitimate goods, pirated works drive out the legitimate, domestic inventory of pirated works grows rapidly due to the high profits involved, and then the domestic pirates become exporters. Singapore and Taiwan are classic examples. This process will be repeated in the other countries surveyed unless the U.S. government makes the elimination of piracy an urgent priority.

On the basis of the evidence contained in this report and from other information available to USTR, we urge that a specialized high-level task force be commissioned to inform each government of the seriousness of these losses and to work with that government to adopt _immediate_ changes in the status of protection of U.S. works. The Alliance will provide its full resources to the U.S. government to assist it in accomplishing this objective.

Ambassador **Veliotes**. Now you have responded and so has the administration. We very much appreciate the provisions added in 1984 to the Generalized System of Preferences Extension Program, which conditioned benefits on protection of intellectual property, and in the International Trade and Investment Act of 1984 that strengthened and clarified section 301 of that act to give the President the additional leverage to seek adequate and effective protection for U.S. intellectual property.

In my written testimony I have detailed progress to date in achieving elimination of piracy and counterfeiting as well as the major offending countries and we applaud the effortsof the administration and the Congress. We understand that both are committed to seeking elimination of this problem. However, as my colleague rather vividly portrayed, after 2 years, there is a lot of promise but not too much has actually been delivered. And that is what we are here today asking—that the Congress give the administration additional tools and resources with which to contain the piracy that exists and move ahead to eliminate it.

We are looking for some unqualified victories in this respect. And we are convinced that our trading partners are still not convinced that we really mean business. We have heard different discussions earlier today of how best to do this. We certainly support the provisions of S. 1860 revising 337. We believe that would be an important improvement in protecting our market. Of course, we are just one market, the most important market. We also have the problem of the markets overseas.

Since the submission of my written statement, we note that Senators Wilson and Lautenberg have introduced S. 2435, the International Intellectual Property and Market Access Act. I am not prepared today to address this proposal in detail. We have not yet had an opportunity to study it or to discuss it with the principals in the association, or the alliance.

But I would like to take this opportunity to extend the appreciation of the entire intellectual property community to Senators Wilson and Lautenberg for this timely and comprehensive approach designed to enhance the protection of American intellectual property.

I would like to stress one more point, Mr. Chairman. The question of resources. Maybe USTR needs a strike force on this subject, a group of people dedicated to the subject. Harvey Bale and his people are doing a terrific job, but they are working flat out. USTR needs additional people and funding. There is no sense having people, for example, if they can't travel. We are talking about international piracy. We would urge the Congress to keep this in mind as we seek to implement and put teeth into our efforts to eradicate this problem abroad in the interest not only of the United States, but we are convinced, also of the creative genius of our trading partners as well because this is going to come back and haunt them.

Mr. Chairman, I appreciate the opportunity to be with you today.

Senator **Danforth**. Well, thank you very much.

[The prepared written statement of Ambassador Veliotes follows:]

Statement

of

Nicholas Veliotes
President

of the

Association of American Publishers

on behalf of the

International Intellectual Property Alliance

on

Trade Reform Legislation to improve protection of intellectual property

Before the

Subcommittee on

International Trade

of the

Senate Finance Committee

May 14, 1986

Mr. Chairman and members of the Subcommittee, my name is Nicholas Veliotes. I am President of the Association of American Publishers which represents our nation's book publishing industry. I also appear here today as a member of and on behalf of the International Intellectual Property Alliance. The Alliance was formed two years ago by most of the associations representing our nation's copyright industries. These include, in addition to AAP,

- ADAPSO: The Computer Software and Services Industry Association
- AFMA, the American Film Marketing Association
- CBEMA, the Computer and Business Equipment Manufacturers Association
- MPAA, the Motion Picture Association of America
- NMPA, the National Music Publishers Association
- RIAA, the Recording Industry Association of America

We came together in this umbrella organization to press the Congress and the Administration first, to recognize the critical importance to the United States of trade in goods and services dependent upon intellectual property protection worldwide and second, to help forge the necessary legal tools enabling our trade negotiators to convince foreign nations to take action against massive and debilitating piracy and counterfeiting of U.S. books, music and records, films, computer software and other products representing the best of American creativity. With respect to the first objective, there has been no disagreement over the importance of protection for intellectual property to the U.S. economy and to U.S. trade. Services has become the dominant sector of our economy, within which the copyright industries are among the fastest growing. According to the American Copyright Council, as far back as 1982 the copyright industries accounted for approximately 5% of the Gross National Product and employed 2.2% of the civilian labor force. The copyright and information-related industries contributed over $150 billion to the GNP and these industries earned in 1982 a trade surplus of over $1.2 billion.

At the same time, piracy of U.S. copyrighted works had become an epidemic. In a study undertaken by the Alliance last year, entitled "Piracy of U.S. Copyrighted Works in Ten Selected Countries", we estimated that losses due to piracy in just the 10 countries selected exceeded $1.3 billion per year. These countries include Taiwan, Singapore, Korea, Brazil and others.

Both Congress and the Administration have now come to recognize the importance to U.S. trade of fostering protection for U.S. intellectual property around the world. This Subcommittee recognized this in 1984 when you considered and passed the GSP Renewal Act and the International Trade and Investment Act of 1984 both of which armed the President with the weapons that he needed to encourage pirate countries to provide adequate and effective protection of U.S. intellectual property. We have also welcomed the Administration's support of bilateral and multilateral efforts to improve protection of intellectual property. Only last month, the Administration issued a comprehensive statement on the importance of intellectual property protection to the world economy and to U.S. trade and on the need to pursue both multilateral and bilateral strategies to improve protection.

There is no longer any question that improved protection for intellectual property is high on the U.S. government's list of trade priorities. It remains to be seen, however, whether this commitment can be translated into real success at the bargaining table. About 2 years after the enactment of these new laws, we can report significant progress but, as yet, no unqualified victories.

- Only Taiwan has passed a new copyright law. Taiwan has finally made U.S. works unequivocally eligible for protection and has increased criminal penalties. However, we must await Taiwan's new enforcement regulations to determine whether piracy in Taiwan can be effectively halted. Meanwhile, estimates that the U.S. loses over $180 million per year from piracy have not changed, and piracy of U.S. works is continuing.

- In November, 1985, the Administration self-initiated a Section 301 investigation into the intellectual property practices and laws of South Korea. This country has never protected American works. We lose about $150 million due to piracy. After 6 months of negotiations, while progress appears to have been made, the Koreans have still refused to accede to some of even the most basic concepts of effective protection. Piracy of U.S. works continues.

- In Singapore, one of the world's worst pirate countries, a new copyright bill has recently been introduced. While in many ways it is a significant improvement over current law, it still offers no explicit protection to U.S. works. While it is essential that Singapore join the Universal Copyright Convention and the Geneva Phonograms Convention, there is no announced timetable. Piracy of U.S. works estimated at over $350 million per year, including exports worldwide, continues.

- Malaysia has recently introduced a new copyright bill. It appears to be a good law which, if combined with timely adherence to the multilateral conventions, will be helpful. While these developments are a hopeful sign, piracy losses of over $70 million per year nevertheless continue.

- Indonesia has done nothing to indicate any move in the direction of improving protection of U.S. works. Recently, pirated audio cassettes have been found in the U.S. shipped by diplomatic pouch. Piracy continues with losses of over $200 million per year.

- Thailand has done nothing to improve its copyright protection of U.S. works. Piracy of over $30 million per year is continuing.

- Little or no progress has been made in other countries where piracy is significant -- in the Middle East and Latin America -- though discussions are in progress.

We can report to you that, while we see some progress and hopeful signs that there will be more in the near future, piracy continues on a massive scale. The Section 301 case against Korea is now in its seventh month and the USTR GSP negotiation teams have just this last week returned from consultations with key pirate countries in Asia. Progress has been painfully slow and, while we have no reason to doubt the Administration's unflagging commitment to improving protection, we remain concerned that our trading partners are still not convinced that the U.S. will no longer tolerate piracy and will take, without hesitation, definitive action if the problem is not corrected. It is absolutely essential that the U.S. make clear and credible its determination to require improvements in intellectual property protection. To do this, the Administration must have not only the legal tools but must commit more of its resources to these negotiations. With the tools and the increased commitment of resources, we believe the problem of piracy, to the extent it rests on inadequate laws, can be solved _in the next year_. Unlike many other of the seemingly intractable trade issues the U.S. faces, the lack of protection for intellectual property in many parts of the world can be remedied. It is not a question of whether but of when -- and when will depend simply on the level of commitment and resources devoted to solving the problem.

What we need is an Anti-Piracy Delta Force at the USTR. With a commitment at this level, our government can solve this problem and declare a major trade victory benefitting the entire world. However, we are quite frankly concerned that USTR simply does not have the resources to do the job within this time frame at this level. We just cannot afford to have countries like Thailand, Indonesia and others not feel the pressure that Korea now feels.

We are also concerned that our negotiators do not always have the leverage that is needed to convince these countries of the seriousness with which we view their failure to protect intellectual property. The Alliance would support legislation which would enhance the credibility of the U.S.'s commitment and enlarge its resources to enable it to apply that leverage now. These countries must be firmly convinced that unless they take immediate action, they will face certain retaliatory action by the United States. If this message is made clear, we believe there will be no need to retaliate.

While the Alliance's efforts have been directed principally at improving copyright laws and enforcement in other countries, we support in principle those changes in Section 337 which are contained in S. 1869 sponsored by Senator Lautenberg and in

S.1860 sponsored by the Chairman and others. These amendments will help deny to pirate countries and their industries an important market -- our own -- for their illicit wares. We must emphasize, however, that the U.S. is only one market; pirates sell all over the world, disrupting and even destroying existing markets for U.S. companies. While these amendments are important and deserve quick enactment, they would not help prevent, for example, the export of pirated audio and video cassettes, books and software out of Singapore to the rest of Asia, to the Middle East and even to Europe.

We also would like to comment on a provision of S. 1860 which seeks to graduate certain advanced developing countries, including Korea, Taiwan and perhaps Singapore, from the GSP Program. The Alliance opposes this proposal because it will eliminate a very important point of leverage to obtain improvements in the protection of U.S. intellectual property by these countries. Continued participation of these countries in the GSP Program is a small price -- if a price at all -- to pay for significant improvements in protection of our intellectual property.

Last week, we were pleased to learn that the Administration had announced agreement to include intellectual property protection as a topic for discussion and negotiation within a new Multilateral Trade Round. We strongly support this effort to include within the GATT an agreement to guarantee the fundamental rights of owners of intellectual property and to develop international dispute settlement mechanisms to assist in enforcing these rights. We would support provisions similar to those appearing in H.R. 4750, the Comprehensive Trade Policy Reform Act of 1986, which authorize such negotiations and establish U.S. objectives for the inclusion of intellectual property in such discussions. We view these multilateral efforts as an important component in our overall trade strategy, which, while aimed at the longer term, set a clear direction and backdrop for the bilateral discussions now underway with many countries. However, we would urge that Executive Branch resources not be diverted from these critical bilateral efforts. We believe that the problem of inadequate protection of our works can only be solved in the near term through the well-organized and concentrated bilateral efforts we recommend. Resources must be added to accomplish this objective and care must be taken to ensure that those multilateral efforts, directed to the longer term, not result in diverting energy from this immediate and important task.

Mr. Chairman, we thank you and the Subcommittee for the support you have given to these efforts to stem the tide of worldwide piracy and to establish an atmosphere in international trade which values the products of American creativity. We look forward to working further with you to bring U.S. resources fully to bear on resolving this problem.

Senator DANFORTH. Mr. Valenti, you have been at this for years. In fact, you were one of the people who got me into this issue. I am sure that you have about as many horror stories to tell about the effect of pirating on the motion picture industry as there are motion pictures. When your industry has sought redress, when you have sought help from the Government, how has it worked out? In other words, is the system now working? Do you find the system responsive to your needs? If you have a complaint, is the Government able to step in either through section 301 or through the GSP conditioning or the use of diplomacy or whatever? Can you get help from Uncle Sam?

Mr. VALENTI. The overall question is: Is the system working?

Senator DANFORTH. Yes.

Mr. VALENTI. The brief answer is no. Are we getting some help from the Government? The answer is yes. I could not applaud with more passion and more gratitude Ambassador Yeutter and his staff. They have been absolutely magnificent. But they operate on a $13.5 million budget per year, which is about what we spend on the Army, Navy, and Marine Bands, I would guess, and maybe the cost of four or five good lobbyists annually in this town.

Senator DANFORTH. Is it lack of personnel and lack of budget that is the problem, then? Or is it that the statutes are inadequate? I mean you are here to testify on behalf of changes in the statute.

Mr. VALENTI. Yes, sir. What I am here to testify is that, first, I believe that the USTR does need increased strength in manpower professionals. But, No. 2, what we need more than anything else, Mr. Chairman, is an institutionalized process that is the will and the resolve of the Congress, and is there in the law and in committee language, that says without any ambiguities to all the countries all over the world: If you persist in this kind of torment to American businessmen in your country, you will suffer some kind of injury.

Senator DANFORTH. You don't think there is a credible threat now?

Mr. VALENTI. No, sir, I do not.

Senator DANFORTH. You think that the statute is too cumbersome, there are too many hurdles that have to be jumped with respect to injury and industry; just too difficult?

Mr. VALENTI. Yes, sir. I agree with what you just said.

Senator DANFORTH. Now, Mr. Secretary, the GSP, has that proved to be a credible threat, in your opinion? Let me say that it was kind of my baby in a way, and I argued vigorously on behalf of keeping GSP status for Korea and Taiwan and Hong Kong back in 1984 and before. But I have to say that I am not sure the results have been there, and maybe we are just crying wolf by conditioning GSP status on intellectual property rights.

Ambassador VELIOTES. It is important, Mr. Chairman. And I would like to take this opportunity to oppose any efforts to graduate certain countries—Singapore, Taiwan—from GSP, because we believe in those instances this is an important tool.

Senator DANFORTH. Well, it hasn't worked.

Ambassador VELIOTES. Well, we have something in Taiwan with respect to copyright. There is even movement in Singapore in this respect.

Now is it the only answer? No. But we believe it is an important tool and we should use it. Now there are other countries. I remember a country that I was closely associated with recently where they had $11 million in GSP. That isn't an important element in that particular country. But as a tool, just let me say we believe that GSP is important as an element of an overall strategy.

Mr. VALENTI. Let me add an addendum to what the Secretary is saying. Seventy percent of all of GSPs go to six countries. And in Korea, where they have $1½ billion dollars worth of GSP, there is some pain there, Mr. Chairman. And I've just come through a long and tortuous negotiation under a 301 filing with the Republic of Korea. And I have to say that was not beyond their comprehension. They understood what I was talking about.

But after you mention those six countries—and Singapore is one of them where there has been some movement in the area of copyright laws, and a few other places. But after you name those six countries, then you dribble off into kind of the price of a class D baseball player, and that is not going to affect——

Senator DANFORTH. Yes. But those are the real basket cases, those other countries. It is a little bit hard for us as politicians to explain to our constituents why it is that we should grant preferential trade status to a country that has a $10 billion surplus with the United States and still pirates U.S. products.

Mr. VALENTI. Well, my answer to that, Mr. Chairman, is very simple, and I think it is bound up in this bill. There has to be a stern, steady, persistent viewpoint, a declaration, if you will, on the part of this Government as the Congress puts it in the bill, that from here on out we are not dealing in rhetoric. We have an institutionalized process, and once you get——

Senator DANFORTH. Let us suppose we retain GSP for these newly industrialized countries. Let's suppose we retain it and there is still pirating. Do you think we should withdraw it? Do you think we should say, in effect, that it is true back in 1984 we were crying wolf, but we are not crying wolf anymore; we are actually going to withdraw GSP status because of piracy?

Mr. VALENTI. Absolutely.

Senator DANFORTH. Why don't we get on with it now?

Mr. VALENTI. I can't answer that question, Mr. Chairman. I am no longer in power. [Laughter.]

Ambassador VELIOTES. But, Mr. Chairman, the fact that it is on the books is important. It got a lot of attention, positively. Sure, it hasn't achieved everything we had hoped it would achieve. I don't think we really thought then that it would be the panacea, the answer to all the questions. We believe it is important that it stay on the books, and we think it is important that these major pirates continue to be under that threat.

Mr. VALENTI. And, again, I think in those six countries, that you know better than I, the threat of maybe withdrawing the GSP may have some credibility. None of them have ever been withdrawn. At least the only two countries we have negotiated with really seriously lately have been Taiwan and Korea. And I have to confess to this body that we have done very well in both those negotiations. Not that we have achieved everything. All we were looking for was equity. We didn't want any special favors. And we are moving toward that in those two countries.

Senator DANFORTH. Are you sure?

Mr. VALENTI. That is a very good question, Mr. Chairman. [Laughter.]

Ambassador VELIOTES. Hopefully.

Mr. VALENTI. As a matter of fact, I have sent a letter to the U.S. Trade Representative saying if certain pledges are not redeemed, I will be knocking at your door, and asking you to lock arms with us and let us march toward the Far East.

Senator DANFORTH. Senator Baucus.

Senator BAUCUS. Mr. Valenti, you described the problems we have in Canada as well as Brazil. It dawned on me that perhaps our industries need some forum in which to get relief more quickly. Then you moved to the Wilson-Lautenberg bill, which, as I understand it, is basically a Government remedy. That is, I understand the USTR would establish certain criteria to use in negotiations over a couple of years with these countries. Then some action would be taken in the event that there is no sufficient resolution of the problems with those countries.

But intellectual property infringement is such a disastrous problem now for the industry in this country that the thought came to me that the Wilson-Lautenberg bill, which would yield results only after time, might not be effective.

Second, instead of relying upon the Government as I understand the bill does, wonder why it wouldn't make more sense for there to be better private remedies available to the industry. Why not, in addition to the Wilson-Lautenberg bill, work with the Congress to hone better developed private remedies so that the industry itself need not depend for relief upon the USTR and the executive branch of whatever party might be in power? The industry would be afforded not only more timely relief but more definite relief.

Mr. VALENTI. Well, Senator, the Secretary can answer for the publishing industry. I am not sure what you mean by private remedies. If you could explain that to me, then I——

Senator BAUCUS. I am suggesting that the industry might be better served by more traditional remedies, rather than having the USTR file a 301 or begin negotiations with the offending country.

Mr. VALENTI. Well, I think unless there is some kind of peril that is going to be visible to a foreign country we are just dealing with dry leaves in the wind. There has got to be a certainty, a certainty of injury if you make your case. Every day we are involved in privately sitting down with various countries. I have just come back from France where I sat with the Minister of Communication and Culture on some indigenous problems there. We do that all the time.

But when you have a serious matter, such as Korea where we were locked out of that marketplace, where we are virtually exiled from the home video market in Brazil, a problem where Canada is about to pull down an iron trade curtain on us, then I think you exhaust "your private remedies." You use those, but you must have the figure of your government looming like a giant shadow over your shoulder as you deal, and then there has to be a forum where we can present our case when our private remedies fall on shallow ears.

Senator **Baucus**. You are saying you need the Government's assistance?

Mr. **Valenti**. Absolutely.

Senator **Baucus**. Even if direct private extraterritorial remedies were developed, you still think that you need the Government's involvement?

Mr. **Valenti**. Well, under the Wilson-Lautenberg bill—which I hope will be joined in by a number of your colleagues—after the negotiations, the President, if he thinks the negotiations aren't going well, or the offending country will not organize a fair trade agreement, he is mandated to respond in some way with what I like to call a surgical trade retaliation. You don't have to bring out the hydrogen bombs, but you can sure send in some kind of a strike force to pick away at that country to let them know that they can't escape. It is going to be an untidy future for them in the trade area if they do not deal in equity.

Senator **Baucus**. Do you agree that the industry and the injury test should be eliminated?

Mr. **Valenti**. Absolutely.

Senator **Baucus**. Are you working with the USTR in trying to resolve the intellectual property right problem with Canada in the upcoming bilateral free trade agreement talks with Canada?

Mr. **Valenti**. Yes, sir. The Canadians have said in public declarations and reinforced in private discussions that they want to "keep off the table" all matters pertaining to cultural sovereignty. Our Ambassador Yeutter has made it clear, and I think Secretary Baker has made it clear, that in no case will bilateral talks exclude cultural sovereignty matters.

Senator **Baucus**. Are you in favor of the United States signing the Berne Convention?

Mr. **Valenti**. Yes, sir.

Senator **Baucus**. You believe that that manufacturing clause should not be an impediment?

Mr. **Valenti**. We are opposed to it.

Senator **Baucus**. Thank you.

Senator **Danforth**. Gentlemen, thank you both very much for your testimony.

Next we have a panel consisting of Donald Swan, Monsanto Co. and chairman of the International Anti-Counterfeiting Coalition; Richard Witte, vice president, Intellectual Property Owners, Inc.; David Foster, ITC Trial Lawyers Association; and Allan Mendelowitz, National Security and International Affairs, General Accounting Office.

Mr. Swan, what is wrong with the Cardinals?

Mr. **Swan**. They are not hitting.

STATEMENT OF DONALD H. SWAN, CORPORATE GROUP VICE PRESIDENT, MONSANTO CO., CHAIRMAN, INTERNATIONAL ANTI-COUNTERFEITING COALITION; AND MEMBER, BOARD OF NATIONAL AGRICULTURAL CHEMICAL ASSOCIATION, ST. LOUIS, MO

Mr. SWAN. Mr. Chairman, I am Don Swan. I am chairman of the International Anti-Counterfeiting Coalition, a broadly based coalition whose common interest is the protection and enhancement of intellectual property rights—patents, trademarks, copyrights—in the often hostile jungle of international trade. I am also on the board of directors of the National Agricultural Chemical Association, and a vice president of Monsanto Agricultural Co. I am accompanied today by Don DeKieffer, our coalition's counsel who is well known to this committee for his work in the trade area.

I would like to just hit some of the highlights of my written statement to give you my perspective as a businessman and one whose company's future is riding on whether the fruits of our extensive and expensive R&D efforts, our inventions, can be protected from piracy.

The nature of U.S. trade has changed. In the past, our strength has been the high volume, efficient production line. However, as the rest of the world has developed, America's strength has begun to shift to higher technology, more creative products, with a higher intellectual property content. Or you might say we have gone from the Model T for everybody to the computer revolution.

Don't let the trade figures confuse the fact. High technology, creative U.S. products are in the lead in many areas internationally, and they are very much in demand. From Disney movies to IBM computers, we have much of what the world wants.

But these products have a real vulnerability. They can be easily copied, pirated, if you will, if they don't have adequate intellectual property protection. While it takes the genius of Disney, a large and creative staff and substantial investment to create a Fantasia, a few semiskilled workers squatting over tape duplicators in a garage in Asia can easily undercut that investment. And, thus, steal from an important export-oriented American industry.

In the case of my own company, literally years of R&D may be needed to bioengineer a new micro-organism which can produce a natural pesticide in the soil and protect crops. Without adequate patents, it would be relatively easy for a pirate to obtain the unique micro-organism and begin brewing up large batches of our new products, killing our entire investment. Each product we try to develop will cost tens of millions of dollars in research, and our entire effort in this area is in the hundreds of millions of dollars.

I know that this is not new to this trade subcommittee. This committee took a leading role in the 1984 Trade Act in recognizing the increasing role of high technology in creative products in America's trade future.

What we are suggesting is that this committee continue this leadership role in assuring that any major trade legislation have a well-rounded intellectual property protection title. Such a title would tend to round out the measures passed in 1984. Components in such a title would fill in the gaps in our domestic intellectual property protection and further encourage such protection overseas. They would help restore the sense of fairness in our trade relations, making sure that the playing field is indead level and that others have to play by the same rules.

Among the things we have suggested are make section 337 a more practical remedy in intellectual property cases. We strongly approve of the amendments before the committee with two small exceptions. We believe that you should retain the requirement that the U.S. industry be involved. That is, that the complainant has a substantial investment in U.S. manufacturing, R&D, creative development or marketing development facilities.

This would include universities and pure research facilities. What we are saying here is that the fact that a guy merely has a patent or has a very small sales presence in this country should not let him have access to this extraordinary remedy.

This is not because of the principles involved but because of the limited time of the ITC. They cannot justify spending time and funds on cases of companies with limited investment in the United States.

With respect to amending the patent law itself to provide extended process of manufacturing coverage, we recommend that you strongly support this measure for inclusion in any bill before the Senate.

We do, however, have two comments in proposals before Congress. We take strong exception with administration proposals that only direct products of a patented process be covered. We would be concerned that, for example, in my area a foreign producer could use our patented process to make an active ingredient of a pesticide but then avoid infringement prosecution by a formulation process. That is, mixing it with carriers and additives to produce finished pesticide.

The administration indications that subsequent steps or processes would render the product immune from infringement would significantly narrow this new protection. We think it should be enough that there is obvious use of the innovator's patent in the product imported.

The essence of a finished pesticide or a pharmaceutical is the active ingredient.

Moreover, we are concerned about the grandfather clause in this provision as it appears in S. 1860. That is, the protection of prior foreign investments in facilities overseas which would literally be infringing pirate's facilities if they were built here in the United States.

The coalition also strongly supports GATT-negotiating authority for property rights. Clear, comprehensive international rules for everyone are very desirable. We know that development will take a long, long time. But we need to develop those rules, and we need to stand behind them.

The coalition also urges this committee to support with your colleagues and on the floor inclusion of a property rights title of patent term restoration for agricultural and chemical products. These innovative export-oriented industries have experienced loss of a significant portion of their patent protection to the increasingly long regulatory delays in bringing products to market. Their leading edge technology in world markets should be encouraged by a reasonable patent term here in their home market.

In addition, more often than not it is a foreign producer who takes advantage of this artificially shortened patent life, diminishing our motivation to innovate and having a negative impact on our trade balance.

We think the committee should consider some new issues such as increase in resources to USTR and perhaps the Commerce Department so they can carry out the very important responsibility in the area of property rights enforcement that was given to them by this committee.

The committee also may want to consider whether the authority and direction given to USTR in the 1984 act is sufficient to follow-up on those activities currently underway.

And, finally, I would just like to also express our comment that we think that the manufacturing clause should not be continued for the same reasons as stated earlier.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, sir.

[The prepared written statement of Mr. Swan follows:]

TESTIMONY OF
DONALD W. SWAN
CORPORATE GROUP VICE PRESIDENT
MONSANTO COMPANY
AND
CHAIRMAN
INTERNATIONAL ANTICOUNTERFEITING COALITION

BEFORE THE TRADE SUBCOMMITTEE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

ON

MEASURES TO ENHANCE THE PROTECTION
OF U.S. INTELLECTUAL PROPERTY RIGHTS
IN INTERNATIONAL TRADE

May 14, 1986

The International Anticounterfeiting Coalition is an organization of over 150 corporations, trade associations, and practitioners with the common goal of attacking the counterfeiting and piracy of our high technology and creative products. In the international trade arena, America is extremely competitive in these areas, and such trade is growing in importance to our country. Computer, new pharmaceuticals, agricultural chemicals, telecommunications, and the whole exciting area of biotechnology loom large in our trading future. Moreover America's creative genius in the arts -- motion pictures, publications, and recordings -- and in high fashion and other consumer products results in a large and growing world market opportunity for America.

On the other hand, our highly competitive products are subject to being pirated by others who have spent no time and money in their creation. Lack of patent, trademark, copyright, and other types of intellectual property protection, especially in certain lesser developed countries, creates and nurtures the development of this piracy. Gaps in our own intellectual property protection further encourages it. Not only does America lose export sales and profits to the pirates but also a share of our own domestic market. Our high technology and creative industries lose return on their R&D and creative investments and thus such investments in America's trading future are discouraged.

The Coalition was pleased when Congress recognized in the 1984 Trade Act that facilitation of piracy of U.S. intellectual property is an unfair trade practice, and there was a need to improve our legal framework to deal with it. While the 1984 Act has been in effect only a short time, it has become clear to us that certain additional measures are necessary to improve our intellectual property protection at home and to encourage such changes abroad. Some of these measures are treated in pending legislation while others are relatively new ideas. This Committee, in its leadership role on trade legislation, should consider them all, whether they are solely in the jurisdiction of this Committee or may involve other Committees as well.

A well balanced Intellectual Property Protection Title of a trade bill should include the following.

Improvements in S 337:

We strongly support proposed improvements in Section 337 to make it more practical to bring cases in the ITC to exclude imports which infringe U.S. patents, trademarks, and copyrights. When this type of action is applied to an infringement case, as opposed to the more usual injurious import of goods, clearly issues such as whether the complainant is "efficiently and economically operated" or whether "injury" can be proven are irrelevant. Infringement is by definition an injury to intellectual property rights and whether the innovator's operation is efficiently run is meaningless in an intellectual property rights case, as opposed to a commodity manufacturing case. There are other desirable features of the proposals before this Committee, such as shortening the period of time for obtaining exclusion of infringing products, increasing penalties, broadening the lands of intellectual products included and the like. There are two points, however, which should be made:

- It would be desirable to keep the requirement that complainant be a "U.S. industry," but such requirement could be satisfied by having a substantial investment in the U.S. in manufacturing, research, and development or creative development facilities. We do not feel a company with only sales or marketing facilities in this country should have access to the 337 process. In this connection we recommend this Committee look to Senator Lautenberg's introductory comments on S.1860 and to the language in the most recent bill in the House.

- We would offer a word of caution on the Administration recommendations that 19USC1337a concerning importation of the product of a patented process be repealed as redundant because of the Administration proposed amendment to the patent law. While we support such an amendment to provide adequate process patent coverage under the patent law (with one important exception mentioned below), enactment is not certain. We would strongly recommend these provisions in Section 337 be kept. One or the other statute could be declared invalid. Certainly it does no harm.

Authority for GATT Negotiations on Intellectual Property:

We strongly recommend the Committee provides adequate authority for the Administration to enter into GATT negotiations on intellectual property issues. While the GATT process can take a long period of time and difficult negotiations, the process should be started to develop meaningful international recognition of fundamentals in intellectual property protection. Adoption of the GATT Anti-counterfeiting Code could be a goal, along with the beginning of a genuine effort to obtain internationally accepted basic standards for national intellectual property systems. In this connection I may note that the international patent treaty, the Paris Convention, does not even require signators to have a patent system. Finally GATT could provide the currently missing means for dispute settlement among nations in the intellectual property area.

Extended Process of Manufacturing Coverage:

We strongly support and recommend that any Intellectual Property Title of a Trade Act include the proposals in S.1860 and the Administration recommendations on "Extended Process Coverage". A U.S. party with a patented process of manufacture should be able to sue for infringement a foreign producer who sets up outside the U.S. using the beneficial patented U.S. process to make unpatented commodities which are then shipped to our country. The sale of the commodities reaps the real benefit of the improved process and should be subject to attack by the developer of the patented process. This is consistent with the protection afforded local nationals in many foreign countries. Moreover, the existence of a number countries overseas with inadequate patent systems, where U.S. inventors cannot get protection, consistututes a real threat to U.S. innovators. No real protection can be obtained locally for a new U.S. process of manufacture so a pirate operation can set up, benefit from using the U.S. process and then sell the goods in the U.S., immune from any attack. It is time we protected U.S. innovators as many countries do their own.

We do, however, have serious difficulty with a new approach suggested in the Administration draft and with a provision of S.1860.

- The Administration draft would extend protection only where the imported product is the "direct" product of the patented process. While their statement indicates that products only altered "in shape or used without significant change in a commercial application" would still be subject to infringement suit, they indicate that products "materially changed by subsequent steps or processes" would not. We feel this unnecessarily confuses and limits the extent of protection. If the patented process is to produce an active ingredient for a drug or agricultural chemical and the foreign producer formulates it into a finished product by mixing in carriers, adjuvants, solvents so it comes out a pill or a can of pesticide, is this infringement? Certainly the active ingredient is the key part of the final product. But a formulation step has taken place. In our view the "direct" qualifier should be deleted or at the very least it should be made clear that infringement takes place if the use of a U.S. patented process is apparent in the overseas manufacture of the imported product. The key we feel is the obvious use of the innovator's patent in the product imported.

We are also concerned by a provision in Sec. 802 of S.1860 concerning process patents. Sec.801(e) provides that proper process patent protection will not apply where the otherwise infringing product is in production or for which substantial preparation for production was made prior to July, 1985. First, we see no need to protect foreign producers who have set up in foreign countries U.S. patented processes to take advantage of weaknesses in the law and benefit at the expense of U.S. innovators. We understand that Senator Mathias has partially limited this in his reported bill S.1543 to investments "in the U.S." However, we still do not see why the foreign copier set up in an enclave country where the U.S. innovator cannot receive protection should avoid infringement because he has built a U.S. distribution warehouse. Moreover, the latter part of the provision referring to "preparation for production" is far too sweeping.

In the normal situation the U.S. innovator will patent his valuable new process in the U.S. and all foreign countries where he can get meaningful coverage, so use of his process in those countries will not be a problem. The problem will come from plants in countries with inadequate patent systems where the U.S. innovator cannot protect himself. Do we really want to protect these copiers from U.S. prosecution because of their plant planning or investment in the protected enclave of such a country?

Restoration of Patent Term for Agricultural and Chemical Products:

We strongly support the provisions in S.1860 and the Administration proposal to restore part of the patent term lost during health and safety review of certain agricultural chemicals, animal health products, and other chemicals. This legislation has significant potential with respect to the industries' abilities in the trade area. These innovative industries in the U.S. are world leaders and have a positive balance of trade for our country of several billion dollars. However, their products unlike other inventions which can be sold shortly after patenting, can lose one third or more of their patent life because the patented product cannot be sold until the lengthy Federal regulatory and registration process is completed. This truncated patent term reduces the incentives for these export oriented industries to engage in research and development to keep them world leaders. Patent term restoration would prevent foreign manufacturers from taking advantage of this short term by making U.S. products and shipping them into our huge domestic market before the U.S. innovator has obtained sufficient return on his investment. Europeans have protected their own industry by going to a longer patent term. Moreover, this type restoration was extended to pharmaceuticals in the U.S. last year.

Technical Patent Amendments:

The Committee should also support three technical patent amendments proposed by the Administration because of their implications for U.S. high technology exports. These include Technology Licensing, Patent Misuse, and Licensee Challenges to Patent Validity. These amendments promote innovation in the U.S. by eliminating technical pitfalls an innovator can encounter in marketing his invention. Restricting the inventor from licensing his product and obtaining a return on his investment should only be done for good reason. These amendments properly clarify the groundrules under which a patent can be used.

Other Considerations:

Although formal legislative proposals are not before the Committee, there are some other ideas which we believe the Committee should consider. These include:

- An Enforcement Office in USTR. Present efforts of the USTR under the intellectual property provisions of the Trade Act of 1984 are taxing the agency's resources. While we feel the relatively small and elite USTR staff is doing an excellent job, they are stretched very thin indeed.

Initiation of property rights based Sec. 301 actions, combined with bilateral and multilateral negotiations plus reporting and work under the GSP program will tax the excellent existing staff. The Committee should consider the desirability of a modest addition to USTR staffing and funding to take care of this additional intellectual property protection work.

- Follow-Up on 1984 Trade Act Work. The Coalition is concerned that adequate authority and direction is provided to USTR for follow-up after completion of the property rights survey and GSP activities being carried out under provisions of the 1984 Act. Undoubtedly the world's intellectual property problems will not be fully resolved after the current activities are completed. While it can be argued that sufficient authority exists to continue this work, the Committee may want to consider giving some specific direction to the agency.

STATEMENT OF RICHARD C. WITTE, VICE PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC., CINCINNATI, OH

Senator Danforth. Mr. Witte.

Mr. Witte. Mr. Chairman, thank you for this opportunity to discuss section 337. I am appearing here on behalf of Intellectual Property Owners. IPO members own and use patents, trademarks, trade secrets and copyrights. I am also chairman of the Intellectual Property Task Force of the National Association of Manufacturers, and I am chief patent counsel to the Procter & Gamble Co. These organizations also support legislation to improve section 337.

If U.S. corporations believe that their competitors, particularly foreigners, will take a free ride on their R&D, they will have less incentive to invest in research and development. But if U.S. patent owners can be protected against foreign free-riders who have no R&D expenses and who import into the United States, thousands of U.S. jobs can be preserved.

IPO strongly endorses legislation to amend section 337 as in S. 1869. The most important feature of the proposed amendment in 337 is that intellectual property infringement—without more—will be treated as injury for purposes of 337. By eliminating the requirement to prove injury, 337 would become a more effective remedy for U.S. manufacturers.

It is difficult and expensive for a U.S. patentee to obtain relief under existing 337 because of several requirements in addition to infringement that have to be met before relief can be ordered by the ITC.

There is no economic or legal rationale for keeping the injury requirement for intellectual property casese

Eliminating the injury requirement would not, however, transform the ITC into a forum merely to litigate intellectual property rights. The type of relief available from the ITC under 337 is different from relief available in an infringement suit in a Federal district court. There should be no concern over duplication of remedies. The ITC has in rem jurisdiction. It can take action against imported, infringing goods manufactured offshore. District courts, because of their in personam jurisdiction—you have to have someone to sue—are often unable to enforce injunctions against goods or to enforce damages against foreigners.

Another difference between district court and 337 relief is the unavailability of money damages in the ITC. Only injunctive relief is available under 337. If you want a jury trial, it is not available at the ITC.

Under existing law, 337 relief is the only relief available to owners of U.S. process patents if the manufacturing is being performed abroad. Currently, it is not infringement to import products made abroad by a patented process. We support the pending legislation to close this loophole. For example, S. 1860. But even if this loophole is closed, both 337 relief and district court relief should still be available. The magnitude and complexity of foreign patent infringement require a variety of legal remediese

In addition to eliminating the injury requirement for intellectual property cases, other 337 amendments are needed. We support eliminating completely the requirement that the ITC must find the U.S. industry to be efficiently and economically operated.

For example, it may be difficult for a newly established technology based industry to show that it is efficient. However, we feel in favor of retaining a requirement in 337 that there must be a properly defined domestic industry. S. 1869 does not yet define industry in detail. It should be defined, however, to also include domestic organizations, university or private, whose function it is to do and license research whether or not they actually manufacture.

The definitions that are presently in H.R. 4747, we believe, are quite appropriate. Any definition should not require an industry to be in existence, however. Currently, 337 permits relief against imports which would prevent the establishment of an industry. Owners of patents should not be denied relief against foreign competition if they are planning to establish an industry in the United States. Some industries built on new technologies may never be established if patent owners cannot fend off foreign free-riders.

S. 1869 quite properly includes trade secrets. It should also be made clear that it includes unregistered trademarks. Abuse of trade secrets and infringement of all trademark rights need 337 remedies.

We hope an amended 337 will be included in your subcommittee's trade reform legislation because it will help stop infringement by foreign competitors who are taking a free ride on the R&D investments of U.S. companies.

Senator **DANFORTH**. Thank you, Mr. Witte.

[The prepared written statement of Mr. Witte follows:]

IPO INTELLECTUAL PROPERTY OWNERS, INC.

STATEMENT OF RICHARD C. WITTE, VICE PRESIDENT
INTELLECTUAL PROPERTY OWNERS, INC.
before
SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE
on
S. 1869 AND RELATED BILLS
May 14, 1986

Mr. Chairman and members of the Subcommittee:

Thank you for this opportunity to express support for the proposed amendments to section 337 of the Tariff Act of 1930.

I am appearing here on behalf of Intellectual Property Owners, Inc. IPO is a nonprofit association whose members own patents, trademarks and copyrights.

Although I am speaking today on behalf of IPO, I would like to note that I am also chairman of the Task Force on Intellectual Property of the National Association of Manufacturers and chief patent counsel at Procter and Gamble Company. Those organizations in principle also support legislation to improve the effectiveness of section 337.

Introduction

IPO's members include large corporations, small businesses, universities and individuals. Members of IPO are responsible for a significant portion of the research and development conducted in the United States. IPO believes an effective system for protecting patent rights and other intellectual property rights is very important for encouraging R & D and commercial development of new technology.

The evidence is overwhelming that the industrial competitiveness of the United States has been slipping. Statistics relating to U.S. patents are one measure of the slippage.

Last year three of the five corporations which received the largest numbers of U.S. patents were foreign-controlled. Ten years ago, none of the top five were foreign-controlled. Last year 43.9 percent of all U.S. patents were granted to foreign nationals, up from about 20 percent in the late 1960's. The share going to Japanese nationals alone last year was over 17 percent.

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IPO believes this decline in American inventiveness can be attributed in part to inadequate legal protection for inventions in this country. The seventeen year exclusive patent right to manufacture, use and sell inventions can give powerful incentives, but only if adequate legal remedies are available to enforce patents.

If companies believe their competitors are likely to take a free ride on their investments in R&D, they have less incentive to invest in R&D. If the owners of U.S. patents can be protected from free riders with no R & D expenses who import into the United States, many thousands of U.S. jobs can be preserved.

Effective patent protection in the U.S. helps U.S. companies most. U.S. companies still own about 70 percent of unexpired U.S. patents and U.S. companies are in the best position to exploit the U.S. market.

Eliminating The Injury Requirement

IPO strongly endorses legislation to amend section 337 of the Tariff Act of 1930 along the lines proposed by S. 1869. We are also generally in favor of the section 337 amendments in Title III of the Administration's intellectual property package, but we prefer S. 1869 on certain points that I will mention.

We believe the most important feature of S. 1869 is that intellectual property infringement -- without more -- would be treated as "injury" for purposes of section 337. Paragraph (2) of subsection 337(a) as amended by the bill would achieve that result. By eliminating the requirement to prove other injury besides infringement, S. 1869 would make section 337 a more effective remedy for U.S. manufacturers.

IPO's members who have had experience with proceedings under section 337 involving patent infringement have found the existing law to be less than satisfactory.

For example, a case filed by Corning Glass Works in 1984 against Sumitomo Electric Industries, Ltd. and Sumitomo Electric U.S.A., Inc. involved alleged infringement of patents concerned with optical waveguide fibers. Corning has committed nearly 20 years and over $200 million in research and development to optical waveguide fiber technology.

The complaint alleged direct infringement of Corning's U.S. product patent covering certain optical waveguide fibers, and the unauthorized importation of optical waveguide fibers manufactured abroad using Corning's process patent covering a method for making optical waveguide fibers. The U.S. International Trade Commission (ITC) instituted an investigation. To obtain relief under section 337, Corning had to prove:

- o That Sumitomo had infringed Corning's patents;
- o That there was an optical fiber industry in the United States;
- o That the optical fiber industry was "efficiently and economically operated"; and
- o That the infringement had had the effect or tendency of destroying

or substantially injuring the domestic industry.

If Corning proved these elements, relief would then depend on whether the ITC believed imposing restrictions on imports of such infringing articles was in the public interest.

If Corning had brought a suit against a U.S. manufacturer in a federal district court under U.S. patent law, it would only have had to prove that its patents had been infringed. However, Corning could not have brought a corresponding action in a federal district court because the patented process was being used outside the United States. Corning's only course of action on the process patent was under section 337.

The administrative law judge assigned to the case made a determination that precluded Corning from obtaining relief. Specifically, he found that Corning's patents were valid and enforceable, that the product patent was of "pioneer status," and that certain Sumitomo products infringed the product patent and were manufactured by Corning's patented process. He also found that there were two domestic industries, one under each of the two patents, and that both of these industries were efficiently and economically operated. However, he found that Sumitomo's imports did not have the effect or tendency to substantially injure either of those industries. He therefore found no violation of Section 337. The Commission reviewed the administrative law judge's determination and affirmed it.

The ITC determined that the substantial injury requirement had to be taken as an independent element of the law, even in intellectual property-based cases. It further determined that Corning had not been substantially injured despite the finding of infringement. Corning has appealed this determination to the Court of Appeals for the Federal Circuit.

In a case filed in 1983, another IPO member, Allied-Signal Inc., sought relief under section 337 to stop infringing imports by ten Japanese and West German competitors. Although Allied-Signal was successful in obtaining an exclusion order, the company has testified that proving injury in the proceeding was very burdensome and expensive.

Allied-Signal developed and patented a process for the manufacture of amorphous metal strip, a thin metal film having a random structure more typical of glass than metal and exhibiting extraordinary properties. The company has spent over $85 million and 14 years developing amorphous metals technology. Allied-Signal believes amorphous metals will be the key to an entire new industry in the United States. There are estimates that the technology will support a billion dollar a year business in the foreseeable future.

Ultimately the ITC found that the 10 competitors had engaged in unfair trade practices within the meaning of section 337 as a result of their use of Allied-Signal's patented process abroad. A general exclusion order was issued by the ITC.

Fortunately for Allied-Signal, injury to a domestic industry was determined to exist, but a slight shift in the facts of the case could have precluded relief on the basis that there was no injury to the domestic industry.

The fact is that it is difficult and expensive for a U.S. patent holder to obtain relief under section 337. Under existing section 337 injury is one of the main conditions in addition to infringement that has to be met before relief can be ordered. There is no economic or legal rationale for keeping the injury requirement in the law for intellectual property cases.

Existing patent law does not require it in cases involving infringement within the United States. Neither the General Agreement on Tariffs and Trade (GATT) nor any other international agreement requires it. A 1982 opinion by a GATT panel in the Spring Assemblies case stated:

> "... in the Panel's view, it could reasonably be said that in considering what were the essential elements in legislation dealing with patent based cases an injury criterion could only be considered irrelevant" (emphasis added).

We therefore strongly support the provision in S. 1869 eliminating the injury requirement for intellectual property cases.

Differences Between Section 337 and District Court Proceedings

Eliminating the injury requirement would not transform the ITC into a forum merely to litigate intellectual property rights. Section 337 would still be a trade statute.

Unless the industry requirement is eliminated too, which we do not recommend, intellectual property owners would still have to show the existence of an industry in the United States in order to obtain an exclusion order from the ITC. The ITC also would still be required to consider the so-called "public interest" factors before excluding infringing imports -- specifically, the Commission would still have to consider "the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers...". Exclusion orders issued by the ITC would still be subject to disapproval by the President of the United States for policy reasons.

Also, the type of relief available from the ITC under section 337 is different in several respects from relief available to a patent owner in a patent infringement suit in a Federal district court, so there should be no concern over duplication of legal remedies. The ITC has in rem jurisdiction. It can take action against all imported goods manufactured offshore in violation of a U.S. patent. Such action against goods can be enforced by the Custom Service at the border, thereby securing effective enforcement.

It seems to us that section 337 can still be justified as compatible with GATT if the injury requirement is eliminated. Section 337 is "necessary" to secure enforcement of patent, trademark and copyright laws within the meaning of Article XX(d) of GATT. It is needed to secure the enforcement of judgments against persons engaged in practices offshore resulting in piracy and infringement. The district courts, by virtue of their in personam jurisdiction, often are unable to enforce injunctions and damages against foreign persons.

Another difference between district court relief and section 337 relief is the unavailability of monetary damages in ITC proceedings. Only injunctive relief preventing future activity is available under section 337. In addition, attorney fees are not available under section 337, nor are jury trials available at the ITC.

Temporary relief is not available as quickly from the ITC as it can be in a Federal district court. Moreover, a patent suit in a district court could be less expensive for a patent owner, even if the amendments to section 337 are enacted, where there are only a few infringers.

Still another difference is that section 337 relief often is the only relief available to owners of patents covering manufacturing processes. Currently, it is not patent infringement to import products into this country made abroad by a patented process, although legislation is pending to close this loophole in U.S. patent law.

Defining "Industry"

We favor retaining a requirement in section 337 for an industry in the United States. Although the text of S. 1869 does not define "industry", Senator Lautenberg noted in the Congressional Record when introducing S. 1869 that he plans to formulate a definition.

We believe if an intellectual property owner has made a significant investment in the United States, that should satisfy the industry requirement. Significant investments in research and development should qualify. It should be made clear also that universities and other intellectual property owners who license their rights to manufacturers are eligible to obtain relief.

We suggest a definition along the lines of the one adopted recently by the House Ways and Means Committee (H.R. 4750) and the House Judiciary Subcommittee on Courts (H.R. 4747). That definition reads as follows:

> ...an industry in the United States shall be considered to exist, or to be in the process of being established, as the case may be, if there is, with respect to the articles, patent, copyright, trademark, or mask work concerned--
> (A) significant investment in plant and equipment;
> (B) significant employment of labor or capital; or
> (C) substantial investment in its exploitation, including engineering, research and development, or licensing;
> in the United States.

Any definition of industry for purposes of section 337 should not require an industry in the United States to be already in existence. Currently, section 337 permits relief against imports which would "prevent the establishment" of an industry. Owners of patents in rapidly changing, high technology industries should not be denied relief against foreign competition if steps are being taken to establish an industry in the U.S. Some industries in the U.S. built on new technologies may never come into existence if patent owners cannot fend off free riders.

Defining "Intellectual Property"

The injury requirement should be eliminated for all of the categories of intellectual property rights which are enumerated in S. 1869: patents, trademarks, copyrights, semiconductor chip mask works, and trade secrets. S. 1869 is superior on this point to the Administration's bill and bills pending in the House, because those bills fail to eliminate the injury requirement for cases involving trade secrets and unregistered trademarks.

The injury requirement of section 337 makes no more sense for trade secret cases than for patent, copyright, trademark or mask work cases. The ITC has granted relief for misappropriation of trade secrets in cases under existing section 337. In re Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product, No. 337-TA-169 (1984); In re Certain Apparatus for the Continuous Production of Copper Rod, No. 337-TA-52 (1979).

Theft and other misappropriation of trade secrets is a growing problem for U.S. companies. Last week's issue of Business Week magazine, for example, includes an article entitled "Information Thieves Are Now Corporate Enemy No. 1." Competitors who misappropriate trade secrets through theft or breach of confidentiality should be subject to section 337 to the same extent as other pirates and infringers. We hope that any bill approved by the Subcommittee will include a subparagraph referring to trade secret rights similar to subparagraph 337(a)(2)(F) of S. 1869.

We note that the language in subparagraph (F) referring to trade secrets needs some refinement. "Misappropriated" is a more apt term than "infringed" for trade secret rights. We suggest revising subparagraph (F) to refer to "unauthorized importation of an article manufactured by misappropriating a trade secret valid and enforceable in the United States."

With regard to trademark rights, which are covered by subparagraph (D) in S. 1869, we suggest clarifying the scope of the term "United States trademark". Although the Administration's bill clarifies it by referring to "a valid and enforceable United States registered trademark", it would be better to cover all trademarks enforceable in the United States, whether or not registered. The ITC in several section 337 cases has given relief to owners of unregistered, "common law" trademarks. We see no reason to eliminate the injury requirement for some trademarks and retain it for others.

Other Changes in Section 337

We support eliminating the requirement that the ITC must find the U.S. industry to be "efficiently and economically operated". It may be difficult for a newly established, technology-based industry to show that it is efficient.

S. 1869 strikes the phrase "efficiently and economically operated" for all section 337 cases. The Administration's bill eliminates it only for intellectual property cases. We support either approach.

We disagree with the idea, however, that it is adequate merely to move the efficient and economic operation requirement to a different part of section 337, so that the requirement would become one of the "public interest" factors to be considered by the ITC when deciding whether to grant relief. The burden and expense to intellectual property owners of litigating over this requirement should be eliminated. Unnecessary requirements can deter patent, trademark and copyright owners from filing complaints.

We favor shortening the time period for determinations by the ITC on whether to issue temporary exclusion orders. A provision in section 2(b) of S. 1869 would set a deadline of 90 days. The Administration's bill sets a deadline of 90 days with a possible extension for complicated cases. We believe the deadline should be as short as practical. Eliminating the injury requirement should facilitate earlier determinations by the ITC on temporary exclusion orders, because investigations would be simpler.

We also favor the other amendments of section 337 which are proposed in S. 1869, some of which are also included in the Administration's bill. While perhaps less important than eliminating the injury requirement, these amendments should help make relief under section 337 more effective. The amendments are as follows:

- o Amendment of subsection 337(f)(1) to make it clear that the ITC can issue both an exclusion order and a cease and desist order;
- o Amendment of subsection 337(f)(2) to increase the maximum civil penalty;
- o Addition of a new subsection 337(g) which would add seizure and forfeiture to the remedies available (We note that the forfeiture provisions in S. 1869 seem to duplicate forfeiture provisions that already exist for trademark and copyright cases);
- o Addition of a new subsection 337(h) to facilitate the issuance of relief directed against defaulting respondents;
- o An amendment to existing subsection 337(h), relettered as subsection (j), to ensure the finality of ITC determinations by confirming that the burden of proof is on the petitioner in any further proceeding to modify or rescind an order or determine that there is no longer a violation, and that relief can be granted only on the basis of new evidence or evidence which could not have been presented in the prior proceeding.

We urge the subcommittee to include section 337 amendments in its trade reform legislation. Amendment of section 337 is an urgent matter because it will help stop piracy and infringement by foreign competitors who are taking a free ride on the investments of U.S. companies.

Other Intellectual Property Issues

We also strongly support section 802 of S. 1860, the "Process Patent Amendment of 1985." This legislation would close a loophole in the patent code which today allows competitors of patent owners to manufacture offshore and import into the United States with impunity if the patent covers a manufacturing process instead of a product.

This legislation, like tha amendments to section 337, will help create jobs in the United States by putting a stop to offshore manufacturing by competitors who are taking a free ride on U.S. R&D investments. U.S. companies own patents on manufacturing processes which are important to new billion-dollar industries. Examples include biotechnology, fiber optics, and amorphous metals. The Corning Glass and Allied-Signal cases mentioned earlier in my statement involved process patents as well as product patents.

The process patent legislation complements the legislation to amend section 337. Both measures are needed. The process patent legislation gives a new remedy in Federal district courts for process patents analogous to the remedy which already exists for product patents. The section 337 amendments reduce the burden and expense of existing ITC proceedings for both process patent owners and product patent owners. Substantial differences exist between section 337 proceedings and district court proceedings. Which remedy is best for patent owners depends on the particular situation. The magnitude of the problem with infringing imports calls for a variety of legal remedies.

Our major trading partners, including Japan, West Germany, France, and the United Kingdom, have provisions in their laws similar to the process patent amendment in S. 1860. We should provide at least as much protection for manufacturing processes as other countries provide.

We support the version of the process patent amendment in S. 1860, and also support certain other versions of this legislation being which are now being considered in the Senate and House Judiciary Committees.

Finally, we recommend that protection of intellectual property rights be covered in any list of trade negotiating objectives that your subcommittee may include in the trade legislation. We believe it is important for the United States to take aggressive action, both in bilateral and multilateral negotiations, to obtain more effective intellectual property laws in foreign countries for the benefit of U.S. intellectual property owners.

* * *

This concludes my prepared remarks. I would be pleased to respond to any questions.

STATEMENT OF R. DAVID FOSTER, LEGISLATION COMMITTEE, ITC TRIAL LAWYERS ASSOCIATION, WASHINGTON, DC

Senator DANFORTH. Mr. Foster, welcome back.

Mr. FOSTER. Thank you, Mr. Chairman. I wish I were back before the committee with more apparent support for the position I am going to espouse. But, anyway, let me say that I am vice chairman of the Legislation Committee of the ITC Trial Lawyers Association and appear today on behalf of the association. We appreciate very much the opportunity to appear and testify.

Before addressing the substance of some of the amendments to section 337, I would like just to give you a little background about the Association. It is a national professional association of more than 300 lawyers who practice before the U.S. International Trade Commission.

The main purpose of the association is improvement of the operation of section 337 of the Tariff Act of 1930. The association members are attorneys, probably a majority of whom are intellectual property attorneys. We represent U.S. manufacturers and industries as well as foreign manufacturers and importers of foreign articles, and include outside counsel to corporations as well as inhouse counsel. In other words, the association represents the full spectrum of business interests which are involved in section 337 proceedings.

While we agree with the objective of many of the proposed amendments to section 337 to make it more effective and efficient, we believe that some of the specific amendments would, in fact, not accomplish this objective.

The association's purpose is to ensure that section 337 remains a strong, effective tool in protecting U.S. intellectual property interests. It is because of this the association specifically opposes the elimination of the requirement in section 337 that some economic harm be demonstrated to a U.S. industry in patent, trademark, copyright, trade secret and mask works cases.

I just want to make a few points with respect to this. First, 337 has worked well in protecting U.S. intellectual property rights in its present form with the injury test, and does not need to be amended. The injury test has rarely been dispositive of cases under section 337. And if relief is not available under section 337, relief usually is available in most other cases in other forums.

Also, and most importantly, eliminating the injury requirement would subject 337 to needless opposition because of its asserted inconsistency with U.S. international trade obligations, particularly the GATT. We believe there would be increased challenges in section 337. And, in fact, right now the European Community is contemplating such an action as a result of the Aramid Fiber's case decided by the Commission recently.

It would lead to retaliations against U.S. exports and ultimately increase disapproval of relief by the President following ITC decisions. This would make relief under section 337 unpredictable and, hence, less useful to property owners.

The elimination of the injury requirement would also interject 337 into the upcoming multilateral trade negotiations and likely interfere with or prevent accomplishing other U.S. intellectual property objectives. We understand that either formally or informally the European Communities has recently notified the administration that they would intend to raise the issue of section 337 in the upcoming negotiations on intellectual property in the upcoming MTN.

Mr. Chairman, I would like to address just a couple of the main arguments made by proponents who wish to eliminate the injury test from among the criteria for establishing a violation of section 337.

Some have argued that doing this is appropriate because it merely removes criteria under section 337 which are not required under domestic intellectual property laws. This argument ignores the totally different procedures and remedies available under those two laws.

Persons who now choose to proceed against foreign producers and U.S. importers under section 337 in the ITC do so because of the extraordinary remedies that can be obtained under section 337, which is not available under the domestic laws. The ITC can issue an order that bars not only goods of the defendants before it but also of those who never participated in the proceeding and those who produce goods long after the decision is rendered. This is truly an extraordinary remedy jurisdiction. The jurisdiction of an international trade law is much broader than that that can be obtained in Federal district court where a court case must be proved against each party one by one.

Indeed, it is difficult for me to imagine that Congress would even permit the remedy available under section 337 to be applied to U.S.-produced goods as it would give rise to outcrys of lack of due process and unfairness.

The injury and industry criteria are appropriate under section 337 because they justify the broad remedy available under section 337 and not available under domestic law and justify the different forum and procedures. They make section 337 a trade statute and justify the trade-type remedy available under it.

Finally, with respect to the injury requirements, Mr. Chairman, we have heard some statements that the cost of satisfying the economic criteria, which would include industry and injury, are equal to more than half the total of the litigation expenses in section 337. Such assertions are simply wrong. The expenses are nowhere near that percentage in a typical case.

I say this based on my own experience, having represented both domestic industries and foreign companies as well as the experiences of many of the attorneys in our association who represent domestic industry as well as foreign companies. Indeed, I would say that the attorneys in our association have been involved in probably better than 95 percent of every section 337 case ever litigated.

I know I have run out of time, Mr. Chairman, and I focused on the injury issue because I think there are a number of people that are beginning to understand the problems that we have pointed out with eliminating the industry requirement. I haven't had a chance to address that, but I would be happy to try to respond to any questions that the Committee may have.

Senator **Danforth**. All right.

[The prepared written statement of Mr. Foster follows:]

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MAY, 1986

COMMENTS OF THE ITC TRIAL LAWYERS ASSOCIATION* ON PROPOSED AMENDMENTS TO SECTION 337 OF THE TARIFF ACT OF 1930 INVOLVING UNFAIRLY TRADED IMPORTS

SUMMARY OF ASSOCIATION POSITION

A number of bills** have been introduced in the Congress which would radically amend the provisions of Section 337 of the Tariff Act of 1930 ("Section 337"). The Administration has also proposed radical changes to Section 337. The

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* The ITC Trial Lawyers Association ("Association") is a professional organization of more than 340 lawyers who practice before the U.S. International Trade Commission. The Association has as its purpose the advancement and improvement of the operation of the international trade laws, and, in particular, Section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) a law which permits the exclusion from entry into the United States of articles which are unfairly traded and which injure a U.S. industry. The Association is a national professional association whose members are attorneys, including a large number of patent attorneys, representing U.S. manufacturers and industries, as well as foreign manufacturers and importers of foreign articles, and which includes outside counsel to corporations as well as in-house counsel.

** Among such bills are S.1869, principally sponsored by Senators Lautenberg and Roth.

Association has studied and analyzed the amendments proposed in these bills and proposal and opposes enactment of certain of the key amendments as now drafted.

While the Association agrees with the apparent objective of these bills and proposal to make Section 337 more effective and efficient, and indeed agrees with many of the specific provisions, the Association believes that the bills and proposal as a whole do not accomplish their objective. To the contrary, some of the amendments, if adopted, would severely interfere with the effectiveness of Section 337 and make it less useful in protecting U.S. intellectual property interests. The Association believes strongly that before any amendments are made to Section 337 affecting its use for years to come, the appropriate legislative committees of the Congress should thoroughly consider whether the purported gain from certain proposed amendments is worth risking the future effectiveness of the statute as well as other adverse effects on U.S. intellectual property rights.

The Association specifically opposes the elimination of the requirement in Section 337 that some economic harm be demonstrated to a U.S. industry in patent, trademark, copyright, trade secret and maskwork cases.

The injury requirement has rarely been determinative of whether relief will be provided under Section 337 (in only 1 contested case in 221 investigations instituted and completed). Eliminating the injury requirement:

1. would subject Section 337 to needless opposition because of its inconsistency with our international trade obligations (particularly the General Agreement on Tariffs and Trade ("GATT")), resulting in increased challenges to Section 337 actions, retaliation against U.S. exports, and increased disapproval of relief by the President following affirmative ITC decisions, thus making relief under Section 337 unpredictable and less useful;

2. would interject Section 337 into the upcoming multilateral trade negotiations and interfere with or prevent accomplishment of U.S. intellectual property goals for such negotiations, such as conclusion of an anticounterfeiting code;

3. would increase duplicating litigation by encouraging unsuccessful parties before the ITC to retry the issues in the federal courts or, having failed in the courts, retry the issues at the ITC.

4. and, as noted by Chairwoman Stern of the U.S. International Trade Commission (ITC) in her recent testimony before the House Judiciary Committee, would (along with the elimination of the domestic industry requirement as proposed in the bill) expand the jurisdiction of the ITC far beyond international trade matters and turn the ITC into an international patent court.

Based on the foregoing, the Association believes the adverse effects of eliminating the injury requirements in Section 337 outweigh the supposed benefits.

The Association also opposes the elimination of the need to demonstrate the existence of a domestic industry under Section 337 in patent, trademark, copyright, trade secret and maskwork cases. Section 337 was enacted to protect an established, or about to be established, United States industry from unfair trade practices. Removal of the domestic industry requirement in patent, trademark and copyright cases would have the anomalous result of permitting foreign companies with no economic stake in plants or equipment in the United States to petition the ITC to prevent U.S. companies from importing a component of a product for assembly in the United States. Indeed, the proposed amendments would also permit a foreign company with no economic presence in the United States to use the ITC to prevent another foreign company which also has no economic presence in the United States from importing an article.

OVERVIEW OF THE CURRENT LAW

Section 337 of the Tariff Act of 1930 has not changed in substance since its enactment. It declares unlawful unfair methods of competition and unfair acts in the importation of articles into the United States, or in the sale of an imported article in the United States, the effect or tendency of which is substantially to injure an efficiently and economically operated United States industry, or to restrain or monopolize trade or commerce in the United States. A violation of this law usually leads to exclusion from entry into the United States of the articles connected with the unfair trade practice. Such an exclusion order normally covers not only articles of persons over whom personal jurisdiction existed and who participated in the proceedings to determine violations, but also articles of importers and foreign manufacturers who never participated in the proceedings and over whom no personal jurisdiction existed in the United States. Such an order can apply to the articles of persons who did not start to produce the articles until well after the order was issued. As such, it is an extraordinary remedy which allows extremely broad relief to a holder of intellectual property rights or some other individual harmed by an unfair trade practice.

Section 337 has operated satisfactorily in the past decade to accomplish the intent of Congress. There have been over 240 cases instituted under Section 337 since its amendment in 1974. The vast majority of these cases have been based on allegations of infringement by imports of U.S. intellectual property rights, i.e., patents, trademarks or copyrights. Seventy percent of the completed cases were resolved in favor of the domestic complaining party by virtue of the entry of an exclusion order, a consent order or a settlement agreement. The foregoing is the case despite the fact that the law now requires injury to a U.S. industry by the offending importations. In fact, this requirement has existed in Section 337 since the adoption of its precursor statute in 1922. In only one (1) contested case out of 221 completed cases under Section 337 since the 1974 amendments has the complaining party been unsuccessful by reason of the injury requirement. This is not an indication of a major impediment to relief.

THE PROPOSED AMENDMENTS

I. THE INDUSTRY REQUIREMENT

The bills seek to amend Section 337 by eliminating the requirement that an industry seeking relief for unfair trade practices involving infringement of a patent, trademark, copyright, trade secret or maskwork be efficiently and economically operated in the United States. Under the amendments the existence of the domestic industry would be established simply by ownership of a valid United States patent, copyright, trademark, trade secret or maskwork. The Association opposes this provision.

These amendments, along with the amendment eliminating the injury test, provide that all one would have to show to establish a violation of Section 337 is that the unauthorized imported article infringes an intellectual property right. This must be viewed against the fact that exclusive jurisdiction for the determination of patent and copyright cases resides in the United States District Courts pursuant to 28 U.S.C. § 1338(a). Legislation which amended Section 337 in 1974 clarified the ITC's jurisdictional position in its consideration of unfair trade practices involving infringement of a U.S. patent. The legislative history makes it clear that patent validity determinations of the ITC are properly not accorded res judicata effect because the ITC has no jurisdiction to determine patent validity, except to the limited extent necessary to decide a case otherwise properly before it. See S.Rep. No. 93-1298, supra, 1974 U.S. Code Cong. & Ad. News at 7329.

Under current law in order for a case to be properly before the ITC it is necessary to establish that there is an efficiently and economically operated domestic industry facing unfair acts of importation which have the effect or tendency to substantially injure that industry. The proposed amendments, by removing this requirement, will effectively destroy the exclusive jurisdiction of the United States District Courts to determine matters affecting patent and copyright infringement and validity and turn the ITC into an international patent court where the only requirement for jurisdiction will be ownership of a United States patent or copyright and an act of importation which is an infringement thereof.

The proposed amendments will open the floodgates of litigation before the ITC by, inter alia, foreign companies. Elimination of the requirement of an efficiently and economically operated industry in the United States would mean that an investigation by the ITC could be initiated upon receipt of an allegation that a valid United States patent, trademark, copyright, trade secret or maskwork has been infringed. The ITC would become available not only to substantially injured or threatened United States industries but to any owner of United States intellectual property rights without regard to whether it has an established industry in the United States or is about to establish an industry in the United States. Accordingly, a foreign company whose only nexus to the United States is ownership of a valid U.S. intellectual property right could sue a United States company which was importing a component of a product for assembly in the United States or the complete product itself. For example, a Japanese company which owns a United States patent could complain of unfair trade practices before the ITC if a U.S. company manufactures products in Hong Kong and then imports them into the United States, even though that Japanese company has no established industry in the United States. Consider the even more anomalous situation in which a Japanese company with no economic presence in the United States seeks to have the products of a German company, which also has no economic presence in the United States, excluded.

Since foreign companies have expressed an interest in using Section 337 in the past, an influx of complaints on behalf of foreign interests can be expected. With these changes in Section 337, foreign concerns would not only have an incentive to burden the U.S. administrative process to their economic advantage, but they would be given the tools to do so. Consider that, of the eleven companies having the most U.S. patents granted in 1984, seven were foreign. In addition, forty-two percent of all U.S. patents issued in 1984 were issued to foreign companies. (USA Today, Money, p. 1, Sept. 14, 1985; N.Y. Times, Sept. 24, 1985).

If the proposed amendments were to become law, investigations would no longer involve the economic expertise of the ITC which is central to its present jurisdiction over trade cases. There would no longer be a need to determine whether an industry exists, and no longer be a need to determine whether the acts of importation have an effect or tendency to cause harm to a domestic industry. The only issues to be decided by the ITC would be validity and infringement of the intellectual property right owned by the complainant. The ITC has no special expertise to handle such judicial issues. In fact, only one of the present Commissioners is a lawyer, and in recent history the Commission has been comprised of a majority of non-lawyers. The increased case load will require major increases in the staff of the ITC and larger appropriations. The case load in the federal courts will not be reduced by reason of the proposed amendment to Section 337.

Persons who now choose to proceed against foreign importers in the ITC do so because of the extraordinary remedy which can be obtained. The ITC can issue an order that bars not only the goods of a respondent, but of those who never participated in the proceedings and even those who first produce the goods long after the decision was rendered. This in rem jurisdiction is much broader than that which can be obtained in a Federal District Court.

One important effect of the proposed amendments will be to deny respondents access to an Article III court which currently have exclusive jurisdiction over issues involving patent and copyright pursuant to 28 U.S.C. § 1338(a). Respondents before the Commission are denied the right to a jury trial and may not counterclaim for infringement of any of their patents which are being infringed by the complainant. Thus the respondent whose patent is being infringed by a complainant can seek relief only in a federal district court while the complainant obtains an exclusion order on an abbreviated time schedule, removing the respondent as a competitor in the United States market.

In conclusion, there is serious doubt concerning the value of having the ITC -- an administrative agency not equipped with any specific expertise in the area of intellectual property rights -- invest valuable time and resources into investigations whose sole purpose will be determination of intellectual property issues. By proposing to eliminate the requirement of injury to an operating industry in the United States, the amendments seek to fundamentally alter the purpose for which Section 337 was enacted, namely, as an international trade statute to protect an established or about to be established United States industry from harm.

II. THE INJURY REQUIREMENT

A. General

The proposed amendments would eliminate the injury requirement from Section 337 in patent, trademark, copyright, trade secret and maskwork cases. The Association opposes such amendments. It is the Association's position that a test of economic harm should remain in Section 337.

This proposed change in the statute would raise anew questions of whether Section 337 is consistent with United States obligations under international agreements, and in particular the GATT. The status of Section 337 under the GATT is not secure as it now stands. Little comfort can be derived from any past consideration of Section 337 by the GATT contracting parties. The recently instituted Aramid Fiber investigation by the European Communities shows that our trading partners are concerned about Section 337. Further, these renewed questions would occur in the context of the United States no longer enjoying "Grandfather" immunity.

Any renewed focus on Section 337 actions taken against other countries' exports to the United States will likely result in demands for retaliation against U.S. exports. This is indeed the crux of the Aramid Fiber investigation now before the European Communities. Borrowing on U.S. practice under Section 301 of the Trade Act of 1974, if countries find Section 337 inconsistent with U.S. GATT obligations, retaliation against the United States is certainly a real alternative.

Renewed consideration of Section 337 resulting from the proposed amendment will also interject Section 337 into the upcoming trade negotiations, which are likely to include serious consideration of important intellectual property issues. Countries not interested in achieving positive results will use the amendments to Section 337 to delay and obfuscate. Particularly vulnerable to this sort of tactic will be the anticounterfeiting code. Developing countries can be expected to use an amendment to Section 337 as a foil against consideration of the code and use it to influence even developed countries to postpone consideration. The chances for an anticounterfeiting code would accordingly be substantially diminished.

Further, the question of injury will be and should be considered in Section 337 cases even if the ITC does not consider injury in its violation investigation. There is no doubt that the extent of injury being experienced by those persons, firms or industries included in the amendment will become an important factor in the Commission's determination of whether it is in the U.S. public interest to grant relief. This mandated consideration is not subject to adjudicatory proceedings, so the opportunity will exist for relatively untested arguments on injury to be made; arguments which now are made subject to cross-examination and discovery, with an opportunity for judicial review, will be made behind closed doors. Further, there is no doubt that foreign governments and companies will argue that the President should disapprove an action of the Commission because the intellectual property owner has not been injured and has relief available in the district courts and that, if the United States takes action, it will be faced with an international challenge under GATT and be subject to retaliation. Such challenges may interfere with general trade relations without benefiting any industry in the United States. These are powerful arguments which can be made behind closed doors, with no review of the President's decision possible under existing law. The result will be increased uncertainty as to whether relief will be provided under Section 337 and greatly diminish its effectiveness.

B. International Agreements

As set forth above, Section 337 substantive jurisdiction has remained unchanged for over fifty-five years. In 1973 the Congress considered the elimination of the injury requirement from Section 337. However, the Trade Act of 1974 retained the historical injury requirement. The requirement was retained for two important reasons:

(1) To leave the substance of Section 337 unchanged and therefore not disturb the "Grandfather" status of the section under GATT; and

(2) To make sure that Section 337 remained a trade statute as intended and not be injected into the then pending Multilateral Trade Negotiations by disturbing the uneasy acceptance accorded Section 337 internationally.

In the half century since its enactment, the only changes in Section 337 were procedural. Indeed, the Senate Report on the 1974 Act, in addressing the amendments to Section 337, stated:

> "No change has been made in the substance of the jurisdiction conferred under Section 337(a) with respect to unfair methods of

competition or unfair acts in the import trade." (S.Rept. No. 93-1298, 93rd Cong., 2nd Sess., p.194 (Nov. 26, 1974)).

By preserving its substance, the section continued to be consistent with GATT by virtue of the "Grandfather Clause" of the Protocol of Provisional Application (¶ 1(b)). The Protocol insulates legislation in existence on October 30, 1947, which is inconsistent with GATT obligations, from the requirement that it conform to such obligations and in effect permits amendments to such legislation only if such amendments do not change the substance of the existing statute. It was in recognition of the necessity of insuring that the proposed amendments were substantively the same as the provisions existing on October 30, 1947, that the injury requirement was retained. Such a precaution was responsive to the Interim Commission for the International Trade Organization's statement that the Contracting Parties to GATT are " . . . expected not to enact any new legislation that is inconsistent with it." (GATT Reports 8 (Jan. 1948-Aug. 1949)).

C. The Spring Assemblies Case

Some proponents of the elimination of the injury criterion argue that Section 337 is safe from attacks as inconsistent with U.S. GATT obligations based upon the GATT panel decision referred to as the Spring Assemblies case. They assert that Spring Assemblies held that Article XX(d) of the GATT exempted Section 337 actions from the requirement that it be consistent with the provisions of GATT. Such assertions are ill-founded.

The panel decision in Spring Assemblies was referred to the GATT Council for consideration. Absent adoption of a panel report by the Council, the report does not constitute GATT precedent. In the initial consideration of this decision, Canada, the European Communities and the Nordic countries all expressed disapproval of the panel report and urged its rejection, and were joined in part by Japan. The only countries supporting approval of the report were the United States and Australia. No final action was taken at the first consideration.

The panel report was again considered by the Council at its May 1983 meeting. A decision was made to adopt the panel report, but only after it was agreed that the report would, in effect, not be a precedent. As described by the official publication on GATT affairs,

> When the Council adopted the report it did so on the understanding that it did not foreclose future examination of the use of Section 337 to deal with patent

infringement cases from the point of view of consistency with Article III and XX of the General Agreement. GATT Activities in 1984, at 44-45 (1984).

Based upon the foregoing, if a vote were held in the Council today, it appears likely that Section 337, as it now stands, may be considered inconsistent with the GATT, given the positions of the Council members on their first consideration and their acquiescence in the report only when it was rendered meaningless as a precedent.

D. National Treatment

If Section 337 is not exempted under Article XX(d) (GATT) as necessary to the protection of U.S. intellectual property rights, then consideration of national treatment obligations would occur. The GATT's National Treatment clause prohibits application to imported products of laws and regulations which are less favorable than those applied to domestic products. Because of the greater difficulties that would be encountered by foreign parties in Section 337 proceedings than in federal district court proceedings, and because of the dual proceedings which imports face while domestic products are subject to only one proceeding, a violation of the National Treatment clause could arise.

Many of thoses who rely inappropriately on the GATT panel report in Spring Assemblies also assert that even if the Article XX(d) exemption were not available, there is nothing inconsistent within the operation of Section 337 and with the requirement under Article III of the GATT for "national treatment." The Association believes there is at least serious doubt as to the correctness of this assertion, and certainly many of our major trading partners do not agree with this proposition.

Some persons have argued that the Section 337 amendments on industry and injury are appropriate because it is merely removing criteria under Section 337 which are not required under the domestic intellectual property laws. While it is true that proof of an industry and distinct economic harm are not required by domestic law, domestic law proceedings are of a fundamentally different nature than Section 337 proceedings. Domestic law proceedings are on a party-by-party basis, involving private rights, and are not part of the international trade laws of the United States. Persons who now choose to proceed against foreign producers and U.S. importers under Section 337 in the ITC do so because of the extraordinary remedy which can be attained under this law, which is not available under domestic laws. The ITC can issue an order that bars not only goods of the defendant before it, but also of those who never participated in the proceeding and even those who first produced the goods long after the decision was rendered. This extraordinary jurisdiction, the jurisdiction of an international trade law, is much broader than that which can be obtained in a federal district court under domestic law, where a case must be proved against each party. Indeed, it is difficult to imagine that the Congress would even permit the remedy under Section 337 to be applied to U.S. produced goods, as it would give rise to outcries of lack of due process and unfairness. The injury and industry criteria are appropriate under Section 337 because they justify the broad *in rem* relief available under Section 337 and not under domestic law, and justify the different forum and procedures. They make Section 337 a trade statute, and justify the trade statute remedy.

III. OTHER CHANGES

The Association also opposes any change in the parity that now exists under Section 337 with respect to the treatment of process and product patents. While the bills are not intended to change the protection afforded process patents under Section 337a, the language is unclear and may well be interpreted as changing this important right.

The Association supports the apparent intent in amending the temporary relief provisions of Section 337, but notes that the time limit provided in the bills and proposal for decisions on temporary relief may be too brief to accomplish the objective of providing more effective and timely relief for complainants.

The Association supports the default provisions of the bills, which permit the U.S. International Trade Commission (ITC) to presume facts alleged in the complaint without further evidence, for the purpose of issuing relief limited to a defaulting party after consideration of the public interest.

The Association endorses the provisions of the bills which place the burden of proof upon a petitioner seeking an advisory opinion from the ITC or a modification or rescission of an existing order issued under Section 337, but opposes the provision which attempts to legislate the standard of evidence which may be considered by the ITC in connection with such an advisory opinion, modification or rescission action:

1. A petition for an advisory opinion as to whether certain activities on the part of the petitioner will not be violative of an existing order or a petition requesting modification or rescission of an order will, in almost every instance, be a totally new proceeding in which the issues are different from those before the ITC in the prior Section 337 proceeding. However, it is entirely possible that evidence presented to the ITC in the prior Section 337 proceeding may be

relevant for wholly different purposes in the later petition proceeding.

2. A question arises as to what is the meaning of the words "evidence which could not have been presented at the prior proceeding," as used in some bills. Does it mean that it did not exist? Does it mean that it could not have been presented because it was irrelevant to the issues before the ITC in that proceeding? If it could have been presented in the prior proceeding but is now being used on different issues from those in the prior proceeding, is its use now barred? Any proposed legislation which raises so many questions as to its meaning is best eliminated if it has little to commend it.

3. The question of what evidence can be used to enable the petitioner to carry its burden when seeking an advisory opinion or rescission or modification of an existing order should be developed on a case-by-case basis by the ITC and should not be legislated by Congress. Accordingly, the Association does not endorse that portion of the proposed amendment which legislates what evidence may be considered by the ITC in connection with a petition for an advisory opinion or modification or rescission of an existing order.

Finally, the Association opposes the enactment of the provisions providing for forfeiture of imported products covered by an exclusion order. It is an unnecessary and overreaching penalty. These provisions would treat importers differently from domestic producers who infringe intellectual property rights, and create an application of the U.S. patent and intellectual property laws beyond the intended scope of such laws.

The Association would be pleased to provide any additional information which may be requested.

Executive Committee
ITC Trial Lawyers Association

STATEMENT OF ALLAN MENDELOWITZ, ASSOCIATE DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Senator DANFORTH. Mr. Mendelowitz.

Mr. MENDELOWITZ. Thank you, Mr. Chairman.

I have submitted my full statement for the record and will read an abbreviated statement.

I am honored to appear before you today to discuss GAO's recent work on ways to strengthen protection of intellectual property rights under section 337 of the Tariff Act of 1930. I am also pleased to deliver to you today the first of what will be three reports on the subject, entitled "U.S. Firms' Views on Customs" Protection of Intellectual Property Rights." It will be available for distribution to the general public after the hearing.

Experience since passage of the 1974 Trade Act, which strengthened section 337, shows that this provision has become an important means to stop imports of goods that counterfeit and infringe U.S. intellectual property rights. Our work, which began in January 1985, shows that section 337 protection of intellectual property rights can be made more effective, and we are proposing ways to do just that.

In the course of our work, so that you will understand the breadth and the extensiveness of our investigation, we reviewed in depth the legislative history of section 337 and ITC implementing regulations, carefully reviewed the files and case histories and the judicial precedents created under the statute, looked at Customs regulations, and reviewed numerous legal and other academic studies regarding section 337.

We interviewed officials involved in administering section 337, including each of the ITC commissioners, the administrative law judges, and representatives of ITC's Office of Unfair Import Investigations and General Counsel; Customs Service officials at headquarters and at its regional office in Chicago; attorneys who represented complainants and respondents in section 337 proceedings; representatives of the GATT Secretariat in Geneva; and outside experts.

We also conducted a survey questionnaire of all firms that have initiated section 337 proceedings to protect intellectual property rights starting January 1, 1975, in which all litigation was concluded as of April 1985.

With respect to our conclusions and recommendations, we conclude that the use of the economic tests is inappropriate in section 337 litigation. Because of these tests, some firms seeking to protect U.S. intellectual property rights from counterfeit and infringing imports have been denied access to section 337 relief.

We support the provisions of S. 1869 that eliminate the efficient and economic operation and domestic industry requirements and redefine the injury test so that ownership of a valid U.S. intellectual property right and proof of infringement by imports is sufficient to meet this criterion.

With respect to the temporary exclusion orders, many see the Commission's 7-month timeframe for issuing expedited relief as excessive. Firms that have received such relief reported in response to our survey that sales and consumer confidence in their products were injured during the course of the temporary relief proceedings, undermining the effectiveness of such relief.

We are proposing that, at the request of complainants, the Commission make temporary relief effective at the time of an administrative law judge's positive initial determination on temporary relief, with the complainants posting bonds. Using this procedure, temporary relief can be made effective in 4 months, and we believe that it will still allow the ALJ's adequate time to develop the merits of the cases. This proposal would add only 1 month to the 90-day timeframe for temporary relief provided in S. 1869.

With respect to default proceedings, we found that the Commission generally takes 12 months to conclude section 337 proceedings when no respondents participate. Firms that have participated in default proceedings reported in response to our survey that sales and consumer confidence in their products were injured during the course of these proceedings, undermining the effectiveness of section 337 relief.

We are proposing that, in proceedings where no respondents participate, the Commission at the request of the complainants presume the facts in the complaint and issue temporary relief if the facts so warrant. The Commission would then continue with its present default proceedings, which would be concluded within 6 months. If it determines that permanent relief is warranted, the Commission would replace the temporary order with the appropriate permanent order. Our concern is that, without a record, section 337 would be open to misuse and abuse.

With respect to the ITC authority to simultaneously issue exclusion orders and cease and desist orders, we support the provisions of S. 1869 that clearly authorize the Commission to issue both exclusion orders and cease and desist orders to remedy the same violations.

And, finally, with respect to Customs enforcement of exclusion orders, because Customs does not appear to be able to seize goods when enforcing exclusion orders, infringers can port shop. That is, bring the infringing goods from port to port until they can gain entry. Of the firms responding to our survey that received exclusion orders, nearly two-thirds of those that had a basis to judge reported that infringing goods continued to enter the country in violation of their exclusion orders. The majority of these firms reported that these goods significantly injured sales. Company officials also told us that these imports hurt consumer confidence in their products.

Therefore, we support legislation to authorize the Commission to instruct the Customs Service to seize goods of predatory infringers, that is, those who on more than one occasion have tried to bring infringing goods into the country in knowing violation of an exclusion order. Seizure and forfeiture is a rather extraordinary remedy and should be used as such.

This concludes my summary statement and I look forward to answering any questions you may have, such as those posed to the first panel today, to which we have given considerable thought.

Senator **Danforth**. Thank you very much.

[The prepared written statement of Mr. Mendelowitz follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

FOR RELEASE ON DELIVERY
EXPECTED AT 1:30 p.m.
MAY 14, 1986

STATEMENT OF

ALLAN I. MENDELOWITZ
ASSOCIATE DIRECTOR, NATIONAL SECURITY
AND INTERNATIONAL AFFAIRS DIVISION

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE
SENATE COMMITTEE ON FINANCE

ON

STRENGTHENING INTELLECTUAL PROPERTY RIGHTS PROTECTION UNDER SECTION 337 OF THE TARIFF ACT OF 1930

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our recent work on ways to strengthen protection of intellectual property rights under section 337 of the Tariff Act of 1930. Experience since passage of the 1974 Trade Act, which strengthened section 337, shows that this provision has become an important means to stop imports of goods that counterfeit and infringe U.S. intellectual property rights. Our work, which we began in January 1985, shows that section 337 protection of intellectual property rights can be made more effective, and we are proposing ways to

- --increase access to section 337 relief by eliminating or redefining certain statutory tests that must be met to obtain relief,
- --improve administration of section 337 proceedings either when complainants need immediate assistance or when no respondents participate,
- --clarify the International Trade Commission's authority to issue both exclusion orders and cease and desist orders to address the same unfair trade practice, and
- --strengthen the Customs Service's ability to enforce exclusion orders.

These proposals are included in a draft report which we anticipate issuing this summer.

NEED FOR INCREASED ACCESS TO SECTION 337

Although section 337 relief has been available since the Tariff Act of 1922 (which contained the essential provisions of what was later to become section 337), firms began using it extensively only when it was amended by the Trade Act of 1974. The 1974 Trade Act transformed section 337 into what one prominent attorney has called "the best forum wherein to challenge widespread infringement of U.S. intellectual property rights." As of April 1985, approximately 95 percent of the section 337 cases initiated since passage of the 1974 Trade Act have involved protection of intellectual property rights, primarily patents.

Section 337 was originally intended as a trade statute to protect U.S. firms and workers against all types of unfair foreign trade practices. Therefore, the provision of relief is contingent on complainants' meeting certain economic tests normally not required to protect intellectual property rights. These tests require complainants to demonstrate that they (1) constitute a domestic industry, (2) are efficiently and economically operated, and (3) are substantially injured by the unfair trade practice.

The International Trade Commission has interpreted these tests broadly. The Commission has:

--Never denied relief on the grounds that the complainant was not efficiently and economically operated.

--Interpreted domestic industry broadly; for example, the Commission has issued relief in instances where the domestic component of the industry did not involve manufacturing operations, but distribution, research and development, or sales and servicing.

--Been willing to accept small showings of injury as sufficient to meet the statute's injury requirement.

Still, because of these economic tests, some holders of U.S. intellectual property rights who seek relief from counterfeit or infringing imports are denied access to section 337 relief. Since the 1974 Trade Act amendments, 11 complainants have been unable to meet all the economic criteria and 6 of them were denied relief solely for this reason. However, these 11 cases may be only part of the story. Our survey results indicate that firms have terminated their proceedings or accepted settlement agreements which they judged not in their best interests because they could not meet all of the statute's economic tests. In addition, other firms may be discouraged from even initiating proceedings because of these tests. However, their number is not known. The cost of section 337 litigation, which, according to our survey generally ranged between $100,000 and $1 million, with a few costing as much as $2.5 million, adds to this reluctance. The legal costs attributable to satisfying the economic tests can reportedly equal more than 50 percent of the total litigation expenses.

There is substantial support for eliminating the requirement that the complainant demonstrate that it is efficiently and economically operated. However, objections have been raised to amending the domestic industry and injury tests. We discuss below what we consider to be the four most important objections and why we do not agree with them.

1. Should either or both tests be amended, the Commission may no longer be the proper forum for adjudicating section 337 disputes.

We see no compelling reason for moving adjudication of section 337 cases out of the International Trade Commission should the economic tests be amended. The Commission is generally viewed as doing a good job of administering section 337 proceedings. As a non-partisan, fact-finding body with a built-in appeal level, the Commission would continue to be an appropriate forum for adjudicating section 337 disputes. It has decades of experience in addressing unfair trade practices, which would continue to be the basis for section 337 complaints. The Commission has also developed expertise in adjudicating disputes involving intellectual property rights through over a decade of experience with section 337 litigation. Further, the Commission's experience places it in a strong position to make "judgement calls" in cases where overriding public welfare considerations require denying relief to complainants that otherwise warrant relief.

2. Amending the economic tests would make federal district court intellectual property litigation and section 337 proceedings virtually identical and duplicative.

We do not agree. The relative disadvantages of using federal district court to protect intellectual property rights, particularly patents, from infringing imports makes section 337 an important alternative for redress. Of particular importance, while the Commission concludes the large majority of section 337 cases within one year, district court patent litigation proceedings often take as long as 3 to 5 years to conclude. Furthermore, the section 337 exclusion order is a more effective vehicle for addressing the importation of infringing goods from multiple sources. A section 337 exclusion order is "in rem," that is, directed toward the counterfeit or infringing products. Thus, a firm need obtain only one exclusion order to stop all such imports, regardless of source, including goods produced and/or imported by persons that did not participate in the original proceedings. In contrast, relief available in federal district court is "in personam," that is, directed against individuals. Consequently, to obtain relief equal to an exclusion order in district court, patent holders must often initiate numerous proceedings, often in different areas of the country, to stop several domestic distributors from marketing the infringing goods.

3. Eliminating the domestic industry criterion, in addition to opening section 337 to U.S. firms presently unable to meet this test, would allow foreign concerns to use section 337 against other foreign and U.S. firms.

We do not view this as a problem. Representatives of the legal community with whom we spoke believe that foreign firms that register intellectual property rights in the United States deserve full government protection. In fact, federal district courts have been adjudicating patent suits initiated by foreign firms for decades. Such an application of section 337 would be consistent with this precedent. In a sense, the domestic industry requirement of section 337 is a disguised "working requirement"--a non-tariff trade barrier used by a number of developing countries. This practice requires that a firm "work" (i.e., use in manufacturing) domestically a patent or other intellectual property right in order to use domestic mechanisms to protect that right. The U.S. government has spoken out in multilateral forums against the use of such trade barriers because they stifle innovation by allowing infringers to use the research and development work of the original inventor without receiving authorization or paying compensation.

4. Amending the injury test may bring new challenges to the consistency of section 337 with the General Agreement on Tariffs and Trade (GATT) rules on measures members can take to protect intellectual property rights.

We do not share this concern and we understand that the Office of the U.S. Trade Representative has also reviewed this matter and found that eliminating the domestic industry and injury tests would not give rise to GATT violations. We believe that such action would be consistent with the protection historically afforded to registered trademarks and to copyrights by the Customs Service, which protects these types of intellectual property rights from counterfeit and infringing imports without requiring owners to meet an injury requirement. In addition, the panel decision in the only GATT dispute settlement case involving section 337 indicated that the section 337 case under consideration would have been consistent with GATT requirements even without the injury test. Although the panel went on to state that it could envision a situation in which use of section 337 to protect intellectual property rights may constitute a violation of GATT, the situation outlined by the panel is just as likely to occur at present as it would if the injury test were amended.

We are proposing that section 337 be amended for cases involving intellectual property rights by (1) eliminating the requirements that complainants constitute a domestic industry and be efficiently and economically operated and (2) redefining the injury test so that ownership of a valid U.S. intellectual property right and proof of infringement by imports is sufficient to meet this criterion.

NEED TO IMPROVE ADMINISTRATION OF SECTION 337 PROCEEDINGS

Experience since passage of the Trade Act of 1974 demonstrates that section 337 protection of intellectual property rights could be more effective if the International Trade Commission could (1) expedite the provision of relief to firms when they either need expedited relief or when no respondents participate and (2) issue both exclusion orders and cease and desist orders to remedy the same unfair act.

The Commission presently takes as much as 7 months or longer to provide expedited relief, usually in the form of a temporary exclusion order. Commission regulations give the administrative law judges 4 months to hold a hearing and make an initial determination and give the Commission one month to decide whether it will review the initial determination and, if so, 2 months to conduct the review and make a final determination.

Many see this timeframe as inordinately long, especially in light of the one-year deadline for providing permanent relief. During this period, respondents can flood the domestic market with counterfeit or infringing goods, thus undermining the effectiveness of the temporary relief. Each of the firms receiving temporary relief that responded to a GAO survey reported that infringing goods entered the country during the course of the temporary relief proceedings and that it was injured by these imports. One firm reported that it lost from $500,000 to $1 million in sales during the course of these proceedings and that the infringing imports hurt consumer confidence in its product to a very great extent. This firm's comments bear noting: "[Our] pricing was totally destroyed. Our credibility was severely impaired. Customers became confused, many stopped buying altogether."

We believe that this problem can be addressed in a way that would reduce by 3 months the present 7-month timeframe for providing relief without reducing the time the administrative law judges would have to hold a hearing and make a determination. We are proposing that, at the request of the complainant, the Commission make temporary relief effective at the time of an administrative law judge's positive initial determination on temporary relief. To ensure that complainants do not benefit should the temporary relief determination be overturned, the complainant in such instances should be required to post a bond. This bond might logically equal the estimated injury that the respondent would incur from the time the temporary relief became effective until the final determination.

The Commission generally takes about 12 months to conclude section 337 proceedings when no respondents participate, otherwise known as default proceedings. Commission decisions emphasize that a default does not establish *per se* a complainant's right to relief. The Commission requires that the attorney for the complainant make a good faith effort to produce evidence to establish a *prima facie* case that a violation has in fact occurred. The Commission (1) wants some factual and legal basis for providing relief, (2) needs such information to ensure that the granting of relief is in the public interest, and (3) needs to assure that its sweeping powers to exclude goods are not being abused.

During the course of these proceedings, however, defaulting respondents can continue to import counterfeit or infringing goods, undermining the effectiveness of the section 337 relief. Virtually all of the firms responding to our survey that had obtained relief in default proceedings reported that their business was injured during the course of these proceedings.

About 57 percent of those that indicated they had a basis to judge reported that they lost from $100,000 to $1 million in sales during the course of the proceedings and about 36 percent reported losses of $1 million to $5 million, with one firm claiming to have lost over $5 million in sales. Of these firms, over 87 percent of those that indicated they had a basis to judge reported that the presence of counterfeit and/or infringing goods hurt consumer confidence in their products to at least some extent during the course of the proceedings. About 50 percent of them reported substantial or very great damage. In addition to these losses, they incurred litigation expenses of as much as $1 million, with one firm reporting litigation expenses of over $2.5 million. Defaulting respondents, of course, incurred no litigation expenses.

We suggest a method to resolve this problem that would provide immediate relief to complainants in default proceedings while, at the same time, giving the Commission the opportunity to develop a record to support the granting of relief. We are proposing that, in section 337 cases in which no respondents participate, the Commission, upon the request of complainants, presume the facts alleged in the complaint and issue temporary relief if the facts so warrant. The defaulting respondents could continue to import goods, but only under bond and subject to re-exportation or destruction should the temporary order be made permanent. The Commission would then continue with its present default proceedings, which would be concluded within 6 months from the date all respondents were officially found in default, not to exceed 12 months from the date the case was initiated. If, after these proceedings, the Commission determines that permanent relief is warranted, it would replace the temporary order with the appropriate permanent relief. In this way, the deserving complainant would be protected from injury during the course of the proceedings and the Commission could develop a record to support the issuance of relief.

We also believe that the Commission can more effectively remedy unfair trade practices by issuing both exclusion orders and cease and desist orders to remedy the same violation. There may be some legal question regarding the Commission's authority to issue both types of relief simultaneously. Section 337(f) authorizes the Commission to issue cease and desist orders "in lieu of" exclusion orders. While the Commission originally read this provision as prohibiting it from issuing both types of relief simultaneously, it has since broadened its interpretation, expanding the instances when it can issue both remedies. Because the statutory support for such action may be in question, we are proposing that section 337 clearly authorize the International Trade Commission to issue both exclusion orders and cease and desist orders to remedy the same unfair trade practice.

NEED TO STRENGTHEN ENFORCEMENT OF SECTION 337 EXCLUSION ORDERS

Firms initiating section 337 proceedings do so with the objective that, should they win, the exclusion orders will effectively stop the counterfeit and/or infringing goods from entering the country. The president of one firm that initiated a section 337 proceeding characterized his expectations of an exclusion order as "a wall around the country." Of course, the high cost of litigating a section 337 case contributes to this expectation.

Although some firms voluntarily stop importing counterfeit or infringing goods covered by exclusion orders, others ignore the orders, placing the enforcement burden on the Customs Service's port inspectors. Because an exclusion order authorizes Customs to exclude, but not seize, counterfeit and infringing goods, some knowledgeable officials do not consider it to be an effective deterrent to importation of such goods. Since Customs cannot seize these goods, foreign infringers who have shipments stopped by Customs are required only to re-export the goods and, thus, lose only shipping charges. Indeed, foreign infringers have been known to "port shop," that is, carry the counterfeit or infringing goods from port to port until they gain entry.

Of the respondents to our survey that indicated they had a basis to judge, nearly two-thirds of the firms that had received exclusion orders reported that counterfeit or infringing goods covered by their exclusion orders continued to enter the country. About 71 percent of these firms saw substantial decreases in such imports after the exclusion orders were issued. Nonetheless, about 73 percent of those that had a basis to judge reported that the counterfeit and infringing imports hurt their sales to at least some extent. Over 45 percent of them reported that sales were damaged to a moderate or substantial extent. Further, company officials told us that the continued presence of infringing goods in the domestic marketplace, sometimes in a form virtually indistinguishable from the original, caused consumers to lose confidence in the authentic products.

We believe steps can be taken to strengthen the ability of Customs' present staff to enforce section 337 exclusion orders. We support initiatives to authorize the Commission to direct Customs to seize goods when enforcing exclusion orders. We suggest that any legislation to this effect provide that the Commission is to use this authority not as an initial remedy but as an extraordinary measure to deal with "predatory" infringers that have tried on more than one occasion to violate existing exclusion orders. Under our proposal, before the Commission could authorize Customs to seize shipments in enforcing an exclusion order, Customs or the complainant would have to present evidence to the Commission that a foreign firm or firms have on more than one occasion attempted to bring counterfeit or infringing goods into the country in knowing violation of an exclusion order.

We also suggest that Customs intensify its efforts to elicit the support of firms that have obtained exclusion orders in identifying shipments containing counterfeit or infringing goods. Over 25 percent of the survey respondents that received exclusion orders undertook independent investigations and provided the results to Customs. Such information could include the names of companies importing counterfeit or infringing goods or information on particular shipments of such goods. These firms were most often satisfied with Customs' response to the information provided. Customs could elicit such information through an informational brochure or similar document that is provided to firms before they initiate section 337 proceedings. Under current procedures, there is no formal mechanism for firms to obtain such information prior to initiating proceedings. As a result, they may not have realistic expectations of Customs' abilities or appreciate the need to provide assistance.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you have at this time.

Senator **Danforth**. In most trade questions, there are pluses and minuses in anything that the Government does, pluses and minuses as to whether to grant 201 relief, 301 relief, and so on. Does anyone see any plus, any countervailing interest, in permitting trade in counterfeit or pirated goods? You are all shaking your heads or not indicating any disagreement with the proposition that there is no, I would think, no countervailing good to be served by permitting trade in counterfeit products or pirated products.

Mr. **Foster**. Mr. Chairman, I agree with that, but let me just add something perhaps to amplify. When you are dealing under section 337, in particular, you are essentially dealing with private rights. Individuals have a property right; they come to the Commission; they ask for relief; the Commission decides whether they meet the criteria of the statute.

In 1974 and, indeed, before then, the Congress always thought it be appropriate that there be somebody to take a look at whether it is in the national interest, if you will, that this private right, which can also be enforced under the domestic laws—exclusive remedy is not under section 337—whether that private right is of such importance and there are no countervailing international rights or——

Senator **Danforth**. All right. I understand. Let me ask you this question, then. Can you conceive of any case in which it would be in the national interest for the Government of the United States to make a decision to allow trafficking in counterfeit goods?

Mr. **Foster**. Well, I can see a case where it would be in the national interest not to enforce a section 337 action.

Senator **Danforth**. Really?

Mr. **Foster**. Yes; and let me give you an example. Suppose you are engaged in a negotiation with a country on telecommunication products, and you are trying to push them to an overall agreement on telecommunications and market access. At the same time, you have a private party that seeks to use section 337 to gain relief from what it feels to be an unfair practice.

That same private party also has the domestic laws available to it. If it goes into court and proves infringement, it need not prove injury; it gets complete relief, injunctive relief.

I could see in a sitution like that that if the foreign government is saying, look, the party has relief available to him, no industry is getting hurt in this situation; you are going to make it very difficult for me to deal with my political problems back home if you start hitting me over the head with these private rights, I can see then the President saying, all right, you know, you have a private remedy, go use that in the courts, and let us get on with this negotiation.

It is a judgment call.

Senator **Danforth**. I would hope that we wouldn't sink to that depth.

Mr. **Foster**. Well, I think also there is the situation of whether you feel you are in violation of an international obligation if you enforce a particular decision of the Commission.

Senator **Danforth**. Again, I can't imagine it. I mean I really cannot imagine the Government of the United States saying, well, for other reasons, we are not going to enforce laws against counterfeit goods.

Mr. Foster. Well, they have done that Mr. Chairman.

Senator Danforth. There would seem to be such an outrage that I would hope that if we would do that, we would do that openly.

Mr. Foster. Well, it is done openly. Right now, the President denies the relief and he gives a reason for why he denies the relief. And he has done that in several cases where he has said it would be inconsistent with our international obligations to grant relief of the sort ordered by the Commission.

Senator Danforth. Anybody else want to comment on that?

Mr. Swan. Well, I think it is that kind of rationalization that has gotten us into the position we are today. It is an inconsisteocy of following the rules that we have that encourage piracy. I think if we make a lot of exceptions, and we have made a lot of exceptions, that we are never going to get anywhere. And that is why this legislation is important and we put teeth behind it.

Senator Danforth. Is it the judgment of this panel—Mr. Mendelowitz has answered this question I think very clearly—but is it the judgment of the panel that the present system is adequate to provide relief? I mean do you think if you have a problem now with pirating—we have section 301, we have the conditioning of the GSP, we have people at USTR who are supposed to be watching this—do you feel now that where there are instances of pirating, Americans who are aggrieved can go to the appropriate authorities and get relief? Or do you feel that under the present set of circumstances it is very difficult to get relief? Too difficult to get relief?

Mr. Swan. I think this legislation certainly helps us. As one of the earlier speakers talked about, there is a $20 billion loss and 750,000 jobs. Obviously, we haven't solved the problem with the current system. We have made some progress. But I think what you are suggesting here would go a long way to help reducing that $20 billion deficit.

Senator Danforth. You are not satisfied with the status quo?

Mr. Swan. We are not; no, sir.

Senator Danforth. Mr. Witte, you are not?

Mr. Witte. No. And these proposed changes would speed it up and make the penalties more severe and certain and remove some of the conditions that shouldn't be there.

Mr. Foster. Mr. Chairman, I am not sure I quite follow, because if our problem is with overseas infringement, if you will, copying overseas and pirating overseas, section 337 doesn't really address that. As you suggest, it is section 301 and other laws that are available to handle that.

These amendments deal with the situations of someone coming into the United States.

Senator Danforth. Right.

Mr. Foster. Now there we have right now a Customs enforcement of the copyright and trademark law that you don't even need to use section 337, 337 is available, basically, for patents. I mean that is where you don't have a Customs, an independent Customs, authority, if you will. In that situation, our position is that what you might gain from making these amendments, you create a risk of perhaps upsetting the entire statute because we believe—and this is our feeling—that if you start trying to having GATT decisions against the United States saying section 337 is inconsistent with the GATT because you are flagging the issue to them, you are eliminating injury and industry, then ultimately the President is going to have to deal with that. And the most likely way—either this President or the next President, and we don't know yet who that is going to be and what his position is going to be. But one way that they have dealt with that in the past is simply not to give relief. And, indeed, that is what happened before 1974 in the amendments there. You rarely got any relief under section 337. And most often than not, it was because the President was under pressure not to give relief.

Mr. DEKIEFFER. Senator, if I could add for a moment. A little earlier today there was discussion about the Wilson-Lautenberg bill on behalf of the ITC. We support the general principles of that bill and go along with what Mr. Foster said. That bill looks more to overseas action than to what is coming in here.

We probably think that the bill needs some technical adjustments, particularly to more clearly recognized that trademarks are also intellectual property. The spirit of the bill is one that we think that has recognized the real problem that most intellectual property owners have overseas. It is not just in this country.

Mr. MENDELOWITZ. Mr. Chairman, the issue of the GATT legality of removing the economic tests under section 337 has been raised by several witnesses today. And I would like to put that issue to rest. We have given extensive consideration to that issue. We have looked at it ourselves. We have consulted with leading legal experts in the academic community. We have reviewed the opinion of Ambassador Yeutter that, in fact, these changes would not be inconsistent with the GATT's. And we traveled to Geneva to discuss this issue with officials of the GATT Secretariat.

We find no basis for believing that such changes would in any way be inconsistent with the GATT. In the one section 337 case that was reviewed by a GATT panel, the Spring Assemblies case, the panel said explicitly that the injury test was irrelevant as far as GATT legality was concerned.

I think to use the excuse of GATT legality to limit the enforcement of intellectual property rights in this country is inappropriate. There is nothing about the GATT that in anyway could be construed as supporting piracy of intellectual property rights.

Senator DANFORTH. Mr. Mendelowitz, you said in the conclusion to your statement that you would like to answer some of the questions put to the first panel, and I can't remember what the questions were. [Laughter.]

But I remember that a question was put to the first panel with respect to GATT legality. Did you have anything else that you were just dying to say?

Mr. MENDELOWITZ. I must admit I am——

Senator DANFORTH. I think you are doing great, and I just wanted to ask you.

Mr. MENDELOWITZ. It is always easier to ask questions that you pose than pose my own.

There were a number of questions that came up. I have to try to think exactly what they were. One of them involved the issue of allowing foreigners to use the section 337 process. We have looked at this issue and, quite frankly, we don't view it as a problem. The residents of the United States, who are the leading owners of intellectual property in the world, have the greatest stake in improving the worldwide system of strengthening intellectual property protection. Allowing foreigners to protect their patents within the United States by gaining access to the section 337 process would just strengthen our hand at improving the worldwide regime for intellectual property protection.

With respect to the appropriateness of the International Trade Commission as a forum for handling section 337 cases if the economic tests were removed, we have concluded that there is no compelling reason for moving section 337 out of the ITC. The ITC does a reasonably good and has a lot of experience in administering section 337. Removing the economic tests would not place any new burdens on the International Trade Commission. It would just remove some of the current burden. We see no reason for altering the process just because the economic tests are eliminated.

Having an in rem procedure in the International Trade Commission to address intellectual property violations which involve imports into the United States is quite important because the foreign violators are beyond the reach of the U.S. courts. Having the ITC process, the in rem exclusion order, to deal with multiple violators, et cetera, makes a lot of good sense.

Senator DANFORTH. Mr. Foster, you have testified that the fact that there is an injury test has not been a bar in successfully processing 337 cases.

Mr. FOSTER. It has not been a major bar. That is right, Mr. Chairman.

Senator DANFORTH. If it hasn't been a major bar, why make people go through this?

Mr. FOSTER. We think it has implications internationally. A decision to bring a case to challenge the United States internationally under GATT is as much a political decision as it is a legal decision, as you are well aware. And these sort of things, when you have a test such as an injury test, that is viewed as a different test, making this a trade law, then I think foreign governments look at the laws differently.

Senator DANFORTH. You are saying that if we don't roll over and play dead other countries will get mad at us?

Mr. FOSTER. No, I am not saying that at all, Mr. Chairman. I am saying we have an effective tool here as it now stands. And you and I both know what happens internationally when you get a GATT decision that goes against you. You only have to look at DISC decisions of that nature and see ultimately what happens. The law is amended, 337 is eliminated, that sort of thing. We want to try to avoid that.

Senator DANFORTH. What happened with DISC is that we dragged it on for a long time.

Mr. FOSTER. That is right.

Senator DANFORTH. And finally replaced it with——

Mr. FOSTER. That is right. And we got hit over the head in every single international meeting that where we wanted the Europeans to do something, the first thing they would say to us is, well, what about DISC. And they resisted successfully many other changes for a long time.

The point we are making, Mr. Chairman, is you cannot in our opinion consider these on their own. They are not separable from our other international trade relations.

Senator **Danforth**. I just really believe that if we have reached the point where we can't provide adequate relief—and these people don't think that it is adequate today—for intellectual property rights violations, we really are in very sorry shape.

Mr. **Foster**. Well, we may have a disagreement on whether it is adequate or not and whether these changes add to that. That is the point I am making. If people want to change the injury test because they say it is a bar and yet it has been a bar in relatively few cases, I am not sure how that can then be argued that that is something that is inadequate in today's law.

Mr. **Mendelowitz**. Mr. Chairman, in the period January 1, 1975, to January 1986, there were 11 section 337 cases in which the complainants did not satisfy all the economic tests and lost their cases.

Senator **Danforth**. Let me ask one final question of Mr. Swan. Mr. Swan wants a test that would provide that the aggrieved party would have to have substantial manufacturing or R&D activities in the United States. Supposing I am the sole owner of the one with my spouse of the Mom and Pop Necktie Co., and we just have a little plant and we make these. It doesn't take a lot of capital, and we are selling these things right and left. All of a sudden crate loads of the same ties arrive from Hong Kong or someplace. Don't you think I should get relief or should it should be just for Monsanto?

Mr. **Swan**. That is a very difficult issue and one we have talked about. And one of the things we have suggested is that we try to establish standards because there are certain situation where the aggrieved party should have relief.

If you spent time and developed the tie, if you did a lot of creative design work in developing the tie, then we would include that as the kind of party that should get relief.

Senator **Danforth**. But it may not be substantial by your standards. All I have done is design a tie and manufacture it.

Mr. **Swan**. Again, we would like to work with your staff to establish the standards and come back to you on that. I hear what you are saying.

Mr. **Foster**. Mr. Chairman, on that one I think you would get relief under the law now. There have been cases where the total sales of a company have been 200,000, 300,000, 400,000 over a period of years and relief has been available.

Senator **Danforth**. I am just going to the changes that Mr. Swan wanted.

Mr. **Foster**. I understand. Right.

Senator **Danforth**. Thank you all very much for excellent testimony.

[Whereupon, at 4:12 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT
on
S. 1869 AND RELATED BILLS
before the
SUBCOMMITTEE ON INTERNATIONAL TRADE
of the
SENATE COMMITTEE ON FINANCE
for the
U.S. CHAMBER OF COMMERCE
by
William T. Archey *
May 28, 1986

INTRODUCTION

With intellectual property piracy costing U.S. companies an estimated $8 billion to $20 billion a year, the U.S. Chamber strongly supports reforming Section 337 of the Tariff Act of 1930.

The Administration has indicated that it will support legislation to protect U.S. intellectual property rights, including trademarks, patents, copyrights, and mask work rights (computer chip designs), along the lines of President Reagan's speech on September 23, in which he said, "When governments permit counterfeiting or copying of American products, it is stealing our future and it is no longer free trade."

We endorse efforts to strengthen the rights of American inventors to exclude from the American market products that infringe upon their intellectual property rights. Section 337 of the Tariff Act of 1930 presently gives the International Trade Commission (ITC) the general power to exclude imports when the importer engages in "unfair methods of competition or unfair acts." The law has been used to restrict importation of pirated products but needs to be strengthened by eliminating the injury test.

Section 337 requires a complaining party to show that the imports threaten an efficient and economically operated domestic industry with

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*Vice President, International, Chamber of Commerce of the United States destruction or substantial injury before relief can be granted. We support the removal of these tests.

In short, intellectual property owners covered by the bill should not need to prove that a whole industry is threatened with destruction or substantial injury. Infringement is sufficient injury.

We also support a change in the law that would require the ITC to act promptly on requests for relief pending the final resolution of a complaint. In cases when a key shipment of infringing goods is en route or a critical selling season is approaching, the failure of the ITC to act promptly inflicts harm on the intellectual property owner that is not easily remedied.

The ability of the U.S. to compete and trade in the global economy is being undermined seriously by foreign violations of U.S. patents, copyrights, trademarks, trade secrets and other proprietary technical data. Improvements in Section 337 that would be made by S. 1869 and related bills are an important step towards improving the ability of Americans to protect their rights.

Eliminating the Injury Requirement

The most important feature of S. 1869 is that intellectual property infringement would be the sole criterion of injury for purposes of Section 337. By eliminating the requirement to prove other injury besides infringement, S. 1869 would make Section 337 a more effective remedy for U.S. manufacturers.

Past proceedings under Section 337 involving patent infringement have found the existing law to be less than satisfactory -- notably in the 1983 case filed by Allied Signal against ten Japanese and West German competitors and the 1984 case filed by Corning Glass Works against Sumitomo of Japan. Allied Signal was successful in obtaining an exclusion order, but only at the price of very burdensome and expensive proceedings. Despite a finding of infringement, Corning was unable to obtain relief from the ITC because "substantial injury" could not be established. Under the existing Section 337, evidence of substantial injury is one of the main conditions -- in addition to infringement -- that has to be met before relief can be ordered. There is no economic or legal rationale for keeping the injury requirement in the law for intellectual property cases.

Defining "Intellectual Property"

The injury requirement should be eliminated for all of the categories of intellectual property rights which are enumerated in S. 1869: patents, trademarks, copyrights, semiconductor chip mask works, and trade secrets. S. 1869 is superior on this point to the Administration's position and H.R. 4800, because those proposals fail to eliminate the injury requirement for cases involving trade secrets and unregistered trademarks.

In many cases, the ITC has granted relief for misappropriation of trade secrets in cases under the existing Section 337. We recommend that the language in subparagraph 337 (a)(2)(F) of S. 1869 referring to trade secrets be amended to use "misappropriated" rather than "infringed" for trade secret rights. We suggest revising subparagraph (F) to refer to "unauthorized importation of an article manufactured by misappropriating a trade secret valid and enforceable in the United States" instead of current language.

With regard to trademark rights, which are covered by subparagraph (D) in S. 1869, we suggest clarifying the scope of the term "United States trademark." Although the Administration's bill clarifies it by referring to a "valid and enforceable United States registered trademark," it would be better to include all trademarks enforceable in the United States, whether or not registered. The ITC in several Section 337 cases has given relief to owners of unregistered, "common law" trademarks. We see no reason to eliminate the injury requirement for some trademarks and retain it for others.

Other Changes in Section 337

We support eliminating the requirement that the ITC must find the U.S. industry to be "efficiently and economically operated" as a condition for relief in intellectual property cases particularly since it may be difficult for a newly established, technology-based industry to show that it is efficient.

We disagree with the idea, however, that it is adequate merely to incorporate the efficiently and economically operation requirement to another part of Section 337, in order that the requirement would become one of the "public interest" factors to be considered by the ITC when deciding whether to grant relief. The burden and expense to intellectual property owners of litigating over this requirement should be eliminated, since unnecessary requirements can deter patent, trademark, and copyright owners from filing complaints.

Expedited Timetables For Exclusion Orders

We favor shortening the period for determination by the ITC on whether to issue temporary exclusion orders. A provision in section 2(b) of S. 1869 would set a deadline of 90 days, which seems to be a workable alternative to present procedures and timetables. Eliminating the injury requirement should also facilitate earlier determinations by the ITC on temporary exclusion orders, because investigations would be simplified.

Process Patent Amendment

We also strongly support Section 802 of S. 1860, the "Process Patent Amendment of 1985." This provision would close a loophole in the patent code which presently allows competitors to manufacture offshore and then import into the United States if the patent covers a manufacturing process instead of a product. Adoption of the new provision would stop offshore manufacturing by competitors who are taking advantage of our research and development investments. The process patent provision would establish a new remedy in our Federal courts for process patents comparable to the remedy for product patents.

Our major trading partners, including Japan, West Germany, France, and the United Kingdom, have provisions in their laws similar to the process patent amendment in S. 1860. We should provide comparable protection for manufacturing processes in our own laws.

Bilateral And Multilateral Negotiations

The U.S. Chamber also urges the Committee to include expanded protection of intellectual property rights as a negotiating objective in a new round of multilateral trade negotiations. We believe it is important for the United States to take aggressive action to obtain more effective intellectual property laws in foreign countries through both bilateral and multilateral negotiations.

Written Statement of Hillenbrand Industries, Inc. In Support of Amending Senate S1869 to Include The Substance of HR1900

Written Statement In Support of Amending Senate Bill S1869 to Include the Substance of HR1900.

We support an amendment to Senate Bill S1869 to incorporate the substance of HR1900, the proposed amendment to the copyright law to establish a system for prompt protection of industrial designs. In our experience, the bulk of industrial design counterfeits and knock-offs are imported. We support an amendment to S1869 to include provisions for the unique form of protection encompassed by HR1900 as applied to imported goods. This protection is not now available under our federal intellectual property laws and an opportunity exists to amend S1869 to encourage increase new product development and introduction throughout the United States.

In today's fast paced marketplace, immediate protection for industrial designs against imported copies is sorely needed. Without such protection, the incentive to create new products with novel designs is greatly diminished. Frankly, it is simpler to allow another company to spend the manpower, time and money to develop a new design (which under current laws will probably not receive any protection for at least two years after it has been publicly released) and then follow the trend. Copying the designs of others using inexpensive, overseas labor becomes the expedient way to do business. The absence of incentives to create new designs (resulting in fewer products being manufactured) and the shift of manufacturing out of the U.S. (i.e., those new industrial designs that are created in the U.S. are unprotected and are being copied and imported into the United States during the critical years) is unhealthy.

The need for prompt and inexpensive protection of industrial designs cuts across the fabric of American industry. The Hillenbrand Industries companies are exemplary.

The major problems to date have affected our American Tourister luggage subsidiary. In the luggage business, the problem of counterfeiting and knock-offs from imports has reached epidemic levels. The dynamic nature of the luggage industry requires that new luggage designs appear in rapid succession. Even successful lines often have an effective life of only one to two years. Before any protection can be had, an army of Far East manufactured copies has invaded the U.S. market and undercut the demand for the original product and design.

A recent example of this is enlightening. In 1982, American Tourister introduced its Soft-Tech® line, a new luggage design with a unique series of vertical pleats and associated design features. An application was filed for design patent protection in 1982 but did not issue until 1985. By that time, a number of import infringers had knocked-off the Tourister design and entered the marketplace. Photographs of some of the knock-offs, showing the high degree of similarity of copying, are attached to this testimony. Until the patent issued, American Tourister was not in a position to take appropriate legal action with any assurance that it would be successful. Recently, Tourister filed two suits against companies which continue to manufacture copies of this item. This product has generated more copiers than any Tourister product in recent years.

For the typical American Tourister product, there may only be one or two copiers. They generally enter the marketplace shortly after introduction of the product by American Tourister and they attempt to sell their knock-offs as long as the Tourister design remains popular. This diminishes American Tourister's ability to maximize its sales during the limited time period when its design is most sought after by the marketplace.

Since Tourister introduces a significant number of new designs each year, several imported copies of various Tourister products are typically found in the marketplace at any one time. Incorporation of the proposed legislation set out in HR1900 would provide American Tourister and other U.S. manufacturers with an appropriate vehicle to take prompt action against the importation of the various knock-offs in the marketplace immediately after they surface.

Our concern goes beyond American Tourister to our other subsidiaries, all of whom are market leaders in their businesses and thus likely targets for foreign copiers. Only recently, our Batesville Casket Company discovered a Korean company attempting to import a knock-off of one of Batesville's popular wood casket models. Fortunately for Batesville, the Korean copier could not find an immediate customer for its product.

We commend to your consideration the substance of HR1900 and recommend that it be incorporated into the Bill under consideration as a practical and fair solution to the present absence of adequate industrial design protection in the U.S. for knock-off and counterfeit foreign imports. Prompt action to incorporate this Bill will be of long-term benefit to the nation.

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